

# SECURITIES AND EXCHANGE COMMISSION

## SEC FORM 20-IS

### INFORMATION STATEMENT PURSUANT TO SECTION 17.1(b) OF THE SECURITIES REGULATION CODE

1. Check the appropriate box:

- Preliminary Information Statement  
 Definitive Information Statement

2. Name of Registrant as specified in its charter

Da Vinci Capital Holdings, Inc.

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

Manila, Philippines

4. SEC Identification Number

24015

5. BIR Tax Identification Code

000-282-553

6. Address of principal office

No. 900 Romualdez St., Paco, Manila

Postal Code

1007

7. Registrant's telephone number, including area code

(632) 8522-8801 to 04

8. Date, time and place of the meeting of security holders

May 28, 2021, 10:00am, via live stream

9. Approximate date on which the Information Statement is first to be sent or given to security holders

May 6, 2021

10. In case of Proxy Solicitations:

Name of Person Filing the Statement/Solicitor

We are not asking for Proxy Solicitations

Address and Telephone No.

N/A

11. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common	1,124,999,969

13. Are any or all of registrant's securities listed on a Stock Exchange?

- Yes       No

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

## Philippine Stock Exchange, Inc. , common shares

*The Exchange does not warrant and holds no responsibility for the veracity of the facts and representations contained in all corporate disclosures, including financial reports. All data contained herein are prepared and submitted by the disclosing party to the Exchange, and are disseminated solely for purposes of information. Any questions on the data contained herein should be addressed directly to the Corporate Information Officer of the disclosing party.*

## Da Vinci Capital Holdings, Inc. DAVIN

**PSE Disclosure Form 17-5 - Information Statement for Annual or  
Special Stockholders' Meeting  
References: SRC Rule 20 and  
Section 17.10 of the Revised Disclosure Rules**

<b>Date of Stockholders' Meeting</b>	May 28, 2021
<b>Type (Annual or Special)</b>	Annual
<b>Time</b>	10:00am
<b>Venue</b>	via live stream
<b>Record Date</b>	May 3, 2021

**Inclusive Dates of Closing of Stock Transfer Books**

<b>Start Date</b>	May 4, 2021
<b>End date</b>	May 28, 2021

**Other Relevant Information**

The Company is amending the Definitive Information Statement to include the 3-year Management Discussion and Analysis of Cosco Capital, Inc., Montosco, Inc., Meritus Prime Distributions, Inc., and Premier Wine Distributions, Inc.

Please see attached Amended Definitive Information Statement of Da Vinci Capital Holdings, Inc.

**Filed on behalf by:**

<b>Name</b>	Candy Dacanay-Datuon
<b>Designation</b>	Corporate Secretary



May 17, 2021

**Securities and Exchange Commission**

G/F Secretariat Bldg., PICC Complex  
Roxas Blvd., Pasay City 1307

Attention: **Mr. Vicente Graciano P. Felizmenio, Jr.**  
Director, Markets and Securities Regulation Department

**Ms. Rachel Esther J. Gumtang-Remalante**  
Head, Corporate Governance and Finance Department

**Philippine Stock Exchange**

9<sup>th</sup> Floor, PSE Tower  
28<sup>th</sup> Street corner 5<sup>th</sup> Avenue,  
Bonifacio Global City, Taguig City

Attention: **Ms. Janet A. Encarnacion**  
Head, Disclosure Department

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*Gentlemen:*

In response to the Securities and Exchange Commission's letter dated May 10 2021, we are submitting the *Amended* Definitive Information Statement – May 17, 2021 of Da Vinci Capital Holdings, Inc.:

SEC Comment	Company Response
Management Discussion and Analysis for 3 years – Cosco Capital	Annex “E-1”
Management Discussion and Analysis for 3 years – Montosco, Inc.	Annex “A-3”
Management Discussion and Analysis for 3 years – Meritus Prime and Distributions, Inc.	Annex “A-4”
Management Discussion and Analysis for 3 years – Premier Wine & Spirits, Inc.	Annex “A-5”

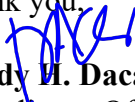
with the following attachments:

Annex “A” 2020 Audited Financial Statements  
Annex “A-1” 2020 Management Discussion and Analysis  
Annex “A-2” 1Q – 2021 Financial Statement  
Annex “A-3” MD&A – Montosco, Inc.  
Annex “A-4” MD&A – Meritus Prime Distributions, Inc.  
Annex “A-5” MD&A – Premier Wine & Spirits, Inc.  
Annex “B” Guidelines to Participate in the Annual Meeting  
Annex “C” Amended Corporate Comprehensive Disclosure dated March 31, 2021  
Annex “D” Valuation Report and Fairness Opinion dated April 8, 2021

Annex “E”	2020 Audited Financial Statements of Cosco Capital, Inc.
Annex “E-1”	MD&A – Cosco Capital, Inc.
Annex “F”	List of Trademarks
Annex “G”	2020 Audited Financial Statements of Montosco, Inc.
Annex “H”	2020 Audited Financial Statements of Meritus Prime Distributions Inc.
Annex “I”	2020 Audited Financial Statements of Premier Wine & Spirits, Inc.
Annex “J”	Certificate of Independent Director – Mr. Enrico Cruz
Annex “K”	Certificate of Independent Director – Mr. Bienvenido Laguesma
Annex “L”	Proxy Form
Annex “M”	Certification none of the named directors and officers work for the Philippine government

The Annual Stockholders’ Meeting of the Company will be on May 28, 2021, 10 am via live-stream.

Thank you.

  
**Candy H. Dacanay – Datuon**  
Compliance Officer

# COVER SHEET

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SEC Registration Number

DA VINCI CAPITAL HOLDINGS, INC.

(Company's Full Name)

NO. 900 ROMUALDEZ ST., PACO,

MANILA

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

CANDY H. DACANAY-DATUON

(Contact Person)

(02) 8522-8801 to 04

(Company Telephone Number)

1 2

Month

3 1

Day

AMENDED SEC FORM 20-IS

(Form Type)

0 5

2 8

(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowing

Domestic

Foreign

SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

INFORMATION STATEMENT PURSUANT TO SECTION 20  
OF THE SECURITIES REGULATION CODE

1. Check the appropriate box:  
 Preliminary Information Statement  
 Definitive Information Statement - *Amended*
2. Name of Registrant as specified in its charter: **DA VINCI CAPITAL HOLDINGS, INC.**
3. **City of Manila, Metro Manila, Philippines**  
Province, country or other jurisdiction of incorporation or organization
4. SEC Identification Number: **24015**
5. BIR Tax Identification Code: **000-282-553**
6. **No. 900 Romualdez St., Paco, Manila** **1007**  
Address of principal office Postal Code
7. Registrant's telephone number, including area code: **02-8523-3055**
8. **May 28, 2021, 10:00 a.m. via live-stream**  
Date, time and place of the meeting of security holders
9. Approximate date on which the Information Statement is first to be sent or given to security holders: **May 6, 2021**
10. In case of Proxy Solicitations: **We are not asking for Proxy Solicitations.**
11. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):

Title of Each Class	Number of Shares of Common Stock Outstanding or Amount of Debt Outstanding
<b>Common Share</b>	<b>1,124,999,969</b>
12. Are any or all of registrant's securities listed in a Stock Exchange?  
  
Yes  No

If yes, disclose the name of such Stock Exchange and the class of securities listed therein: **Philippine Stock Exchange, common share**

## NOTICE OF ANNUAL STOCKHOLDERS' MEETING

To our stockholders:

Please be informed that the Annual Stockholders' Meeting of **DA VINCI CAPITAL HOLDINGS, INC. ("DAVIN")** will be on May 28, 2021, 10:00 am, via Zoom or any secured online platform.

### AGENDA

- a. Call to Order
- b. Certification of Notice and Quorum
- c. Review and Approval of the Minutes of the Previous Meeting held on November 20, 2020
- d. Annual Report of Management and Approval of the Audited Financial Statements for 2020
- e. Ratification of Acts of the Board of Directors and Management since the Last Annual Meeting of Stockholders
- f. Approval of Amendment of the Company's Articles of Incorporation and By-Laws
  - Amendment of Corporate Name
  - Amendment of Primary and Secondary Purposes
  - Amendment of Corporate term
  - Change in Par Value of Common shares
  - Increase of Authorized Capital Stock, and Delegation to the Company's Board of Directors of the authority to determine the manner of subscription and the subscriber/s of the increase in authorized capital stock.
- g. Top-Up Plan for the Fractional Shares Resulting from the Proposed Increase in Authorized Capital stock
- h. Ratification of Rescission of Subscription Contract between Da Vinci Capital Holdings, Inc. and Invescap Incorporated
- i. Issuance of up to 11,250,000,000 Common Shares of Da Vinci Capital Holdings, Inc. pursuant to the Share Swap Transaction with Cosco Capital Inc.
- j. Waiver of Requirement to Conduct a Rights Offering on the Issuance of up to 11,250,000,000 Da Vinci Common Shares to Cosco Capital, Inc. for the Share Swap Transaction

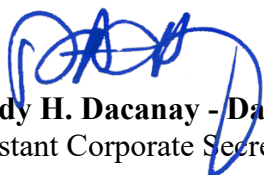
- k. Issuance of up to 3,000,000,000 Da Vinci Common Shares pursuant to DAVIN's Follow-on Public Offering ("FOO") Program
- l. Election of Directors Including Independent Directors
- m. Re-Appointment of External Auditor and Fixing its Remuneration
- n. Other Matters
- o. Adjournment

Each agenda item for approval is explained in the Information Statement, with brief description in the attached "***Explanation of Agenda Items***" and the "***Amended Comprehensive Corporate Disclosure***" as published on the PSE website on March 31, 2021, copy of which is hereto attached as ***Annex "C"***. Only stockholders on record as of May 3, 2021 are entitled to notice and vote in the meeting.

Considering the COVID 19 pandemic, the stockholders may only participate in the meeting by remote communication, *in absentia* or by appointing the Chairman of the meeting as their proxy. Stockholders of record who wish to participate in the meeting via remote communication and cast their votes *in absentia* shall notify the office of the Corporate Secretary at [http://corporate.governance.davinci@gmail.com](mailto:http://corporate.governance.davinci@gmail.com), and submit the requirements no later than May 24, 2021. For the detailed instructions and procedures to be followed in participating *in absentia* or by remote communication in the meeting, please see ***Annex "B" (Guidelines in Participating via Remote Communication and Voting in Absentia)*** of the Information Statement.

The Information Statement will be accessible on the Company Disclosure in the company's website at [www.davincicapital.com.ph](http://www.davincicapital.com.ph) starting May 3, 2021.

The stockholders who are attending by proxies should e-mail their duly accomplished proxies to [http://corporate.governance.davinci@gmail.com](mailto:http://corporate.governance.davinci@gmail.com) on or before May 24, 2021, 5:00 pm. Stockholders of record may download and print the proxy form from the Company Disclosures in DAVIN's website at <http://www.davincicapital.com.ph>. Successfully registered stockholders can cast their votes and will be provided access to the live streaming of the meeting. The company's stock transfer agent will validate the votes on May 25, 2021, 1:00 pm, at the office of the Assistant Corporate Secretary, Tabacalera Building, No. 900 Romualdez St., Paco, Manila, 1007.



**Candy H. Dacanay - Datuon**  
Assistant Corporate Secretary

## EXPLANATION OF AGENDA ITEMS

### *1. Call to Order*

The Chairman of the meeting, Mr. Lucio L. Co, will welcome the stockholders and formally open the meeting at 10:00 am.

### *2. Certification of Notice and Quorum*

The Assistant Corporate Secretary, Ms. Candy H. Dacanay - Datuon, will certify that notices to stockholders were duly sent, and there is a quorum to transact business.

### *3. Review and Approval of the Minutes of the Previous Meeting held on November 20, 2020*

The minutes of the meeting held on November 20, 2020 are available at the Corporation's website, [www.davincicapital.com.ph](http://www.davincicapital.com.ph)

### *4. Annual Report of Management and Approval of the Audited Financial Statements for 2020*

The President, Mr. Jose Paulino L. Santamarina, will report on the performance of DAVIN in 2020 and the outlook for 2021.

### *5. Ratification of Acts of the Board of Directors and Management since the Last Annual Meeting of Stockholders*

The actions of the Board and its Committees were those taken and adopted since the annual stockholders' meeting on November 20, 2020 until May 28, 2021. They include the approval of agreements, projects, investments, and other matters covered by disclosures to the Securities and Exchange Commission and the Philippine Stock Exchange. The acts of the officers were those taken to implement the resolutions of the Board or its Committees or made in the general conduct of business.

### *6. Approval of Amendment of DAVIN's Articles of Incorporation and By-Laws*

A resolution on the amendments of Articles of Incorporation and By-laws, particularly on the changes in name, purpose, term, and the par value of common shares to PhP 0.10 per share, as well as, the reclassification of the authorized preferred shares to common shares, and the increase of authorized capital stock- common shares of the Company to PhP 2 billion divided into Twenty (20) billion common shares, will be presented for the approval by the stockholders representing at least two thirds (2/3) of the outstanding capital stock of the company.

The delegation to the Board of Directors of the authority to determine the manner of subscription and the subscriber/s of the increase of authorized capital stock-common shares will also be presented for the approval of the stockholders, including majority of the minority of the stockholders.

*7. Top-up Plan for the Fractional Shares Resulting from the Proposed Increase in Authorized Capital Stock*

Approval by the stockholders of the: (a) offer by Cosco Capital, Inc. to settle, on behalf of the affected stockholders holding fractional shares, the difference between the par value of one (1) full share and the value of a fractional share (the “**Top-Up Plan**”); (b) delegation of authority to the board of directors or management to formulate necessary guidelines for the implementation of the Top-up Plan including the terms and conditions of the transaction documents, as well as the issuance of corresponding common shares out of DAVIN’s authorized capital stock; and (c) authority to apply for listing with the Philippine Stock Exchange all the common shares to be issued by DAVIN pursuant to the Top-up Plan.

*8. Ratification of Rescission of Subscription Contract between DAVIN and Invescap Incorporated*

On March 29, 2021, the Board of Directors of DAVIN approved the rescission of the Subscription Contract which was mutually agreed by the parties. The Board of Directors, after evaluating the transaction structure and discussing with its advisers, found that rescinding the Invescap subscription will streamline the process by eliminating unnecessary steps, create better efficiencies and optimize the structure that will: (1) facilitate the implementation and early completion of the share swap transaction; (2) allow DAVIN to create better value for all of its shareholders, including its public shareholders, that is less dilutive to the minority; and (3) provide DAVIN sufficient available unissued shares that will allow it to immediately act on capital raising opportunities when market conditions are optimal.

The rescission of the Subscription Contract will be presented by DAVIN to the stockholders for approval.

*9. Issuance of up to 11,250,000,000 Common Shares of DAVIN Pursuant to the Share Swap Transaction with Cosco Capital Inc.*

Authority for DAVIN to enter into a Deed of Exchange of Shares with and issue up to 11,250,000,000 common shares of stock to Cosco Capital, Inc. (“**Cosco Capital**”) at PhP2.00 per share, and in exchange and as consideration thereof, Cosco Capital shall assign 100% of its shares in the following unlisted companies in favor of DAVIN, for the purpose of supporting the increase in authorized capital stock of the company:

- (1) Montosco, Inc.
- (2) Meritus Prime Distributions, Inc. and
- (3) Premier Wine and Spirits, Inc.

The details of the issuance are discussed in the Amended Comprehensive Corporate Disclosure (“**CCD**”) filed by DAVIN pursuant to the transaction.



*10. Waiver of Requirement to Conduct a Rights Offering on the Issuance of up to 11,250,000,000 DAVIN Common Shares to Cosco Capital, Inc. for the Share Swap Transaction*

Approval by the minority stockholders of the waiver to conduct a rights offering on the 11,250,000,000 common shares subject of the proposed Share Swap Transaction with Cosco Capital.

Considering that the subscribers to the aforementioned transactions are classified as related parties, the aforementioned waiver must be confirmed by a majority vote representing the outstanding shares held by the minority stockholders present or represented in the meeting (Article V, Section 5 of the Consolidated Listing and Disclosure Rules of the Philippine Stock Exchange).

*11. Issuance of up to Three (3) Billion DAVIN Common Shares Pursuant to DAVIN's Follow-on Public Offering ("FOO") Program*

Approval by the stockholders representing at least a majority of the outstanding capital stock will be sought to issue up to three (3) billion common shares pursuant to the planned FOO of DAVIN shares.

*12. Election of Directors Including Independent Directors*

The Chairman of the meeting will announce the names of the nominees for the election of directors and will open the floor for stockholders' voting.

*13. Re-Appointment of External Auditor and Fixing its Remuneration*

A resolution for the appointment of R.G. Manabat & Company (KPMG) and its proposed remuneration as External Auditor of the company for year 2021 will be presented to the stockholders.

*14. Other Matters*

The Chairman will open the floor for any question from the stockholders.

## **INFORMATION REQUIRED IN INFORMATION STATEMENT**

### **A. GENERAL INFORMATION**

#### **Item 1. Date, time and place of annual meeting of security holders.**

- (a) May 28, 2021, 10:00 AM, via Zoom or any secured online platform  
Principal Office: No. 900 Romualdez St., Paco, Manila 1007
- (b) The Information Statement will be available on the company's website [www.davincicapital.com.ph](http://www.davincicapital.com.ph) beginning on May 6, 2021.

**We are not asking for a proxy and you are requested not to send us a proxy.**

#### **Item 2. Dissenters' Right of Appraisal**

Section 80 Title X of the Revised Corporation Code provides that any stockholder of a corporation shall have the right to dissent and demand payment of the fair value of the shares in the following instances:

- (a) In case an amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholder or class of shares, or of authorizing preferences in any respect superior to those outstanding shares of any class, or of extending or shortening term of corporate existence;
- (b) 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 Revised Corporation Code;
- (c) In case of merger or consolidation; and
- (d) In case of investment of corporate funds for any purpose other than the primary purpose of the corporation.

There are no matters or actions to be taken up at the meeting that may give rise to a possible exercise by stockholders of their appraisal rights.

#### **Item 3. Interest of Certain Persons in or Opposition to Matters to be Acted Upon**

- (a) The following have substantial interest, direct or indirect, by security holdings or otherwise, in the share swap transaction:
  - (1) Mr. Lucio L. Co, Chairman of the company's Board of Directors, is likewise the Chairman of the Board of Cosco Capital, Inc. ("Cosco"), with ownership of 33% of Cosco's outstanding capital stock. He is also the spouse of Ms. Susan P. Co, who is the Vice Chairman of Cosco's Board of Directors, who owns 24.73% of Cosco's outstanding capital stock.

- (2) Ms. Camille Clarisse P. Co, who is a director of the company, owns 1.48% of Cosco's outstanding capital stock.
  - (3) Atty. Bienvenido E. Laguesma is an Independent Director of both the company and Cosco.
- (b) No director, officer, nominee or any associate of the foregoing person has informed the company in writing that he intends to oppose any action to be taken by the company at the meeting and indicate the action which he intends to oppose.

## **B. CONTROL AND COMPENSATION INFORMATION**

### **Item 4.Voting Securities and Principal Holders Thereof**

- (a) Number of outstanding shares as of the date of this report: 1,124,999,969 common shares.

Number of votes entitled: one (1) vote per share

- (b) All stockholders on record as of May 3, 2021 shall be entitled to vote in the meeting.
- (c) Section 23 of the Revised Corporation Code states that stockholders entitled to vote shall have the right to vote the number of shares of stock standing in their own names in the stock books of the corporation as of record date. The said stockholder may: (a) vote such number of shares for as many as there are directors to be elected; (b) cumulate said shares and give one (1) candidate as many votes as the number of directors to be elected multiplied by number of shares owned; or (c) distribute them on the same principle among as many candidates as may be seen fit. Provided, that the total number of votes cast shall not exceed the number of shares owned by the stockholders as shown in the books of the corporation multiplied by the whole number directors to be elected.

During the April 16, 2021 special board meeting of the company, the Board of Directors allowed the stockholders to attend and vote *in absentia*, details of which are provided in the notice of the meeting.

- (d) There has been no change in control of the company in the last fiscal period. Nevertheless, we provide below the security ownership of certain beneficial owner and management of more than 5% of the stock of the company as of May 3, 2021:

<b>Title of Class</b>	<b>Name, address of record owner, and relationship with the Company</b>	<b>Name of Beneficial Owner and Relationship with Record Owner</b>	<b>Citizenship</b>	<b>Number of shares held</b>	<b>Percent</b>
Common	Invescap Incorporated  Address: 1343 Merced St., Paco, Manila  Relationship: Stockholder	Lucio L. Co  Relationship: Indirect	Filipino	956,203,336	85.00%

## 2. Security Ownership of Management

The following are the number of shares of common stock owned of record and beneficially by the directors and executive officers of the company and the percentage of shareholdings of each as of May 3, 2021:

<b>Title of Class</b>	<b>Name of Beneficial Owner</b>	<b>Amount and Nature of beneficial ownership</b>	<b>Citizenship</b>	<b>Percent of Outstanding Voting Shares</b>
Common	Lucio L. Co	Amount: 956,203,3367 shares  Nature: Direct and Indirect	Filipino	0.00%
Common	Camille Clarisse P. Co	Amount: 100 shares  Nature: Direct	Filipino	0.00%
Common	Robin Derrick C. Chua	Amount: 100 shares  Nature: Direct	Filipino	0.00%
Jose Paulino Santamarina	Amount: 100 shares  Nature: Direct	Filipino	0.00%	
Common	Janelle O. Uy	Amount: 1,000 shares  Nature: Direct	Filipino	0.00%
Common	Enrico S	Amount: 1 share  Nature: Direct	Filipino	0.00%
Common	Bienvenido Laguesma	Amount: 1 share	Filipino	0.00%

		Nature: Direct		
Common	Imelda Lacap	None	Filipino	N/A
Common	Ma. Editha D. Alcantara	None	Filipino	N/A
Common	Baby Gerlie I. Sacro	None	Filipino	N/A
Common	Candy H. Dacanay-Datuon	None	Filipino	N/A

3. None of the directors has any voting trust agreement for their ownership of more than 5% of the stock of the company.

4. There has been no change in control of the company in the last fiscal period.

5. Foreign ownership level as of March 31, 2021:

3,870,604 or 0.34% of the outstanding capital stock

## Item 5. Directors and Executive Officers

### (A) Directors and Executive/Key Officers

Presented below are the company's Directors, Executive Officers and Key Officers:

Name	Age	Position	Citizenship
Lucio L. Co	66	Chairman of the Board	Filipino
Jose Paulino L. Santamarina	57	President and Director	Filipino
Camille Clarisse P. Co	32	Director	Filipino
Janelle O. Uy	32	Director	Filipino
Robin Derrick C. Chua	31	Director	Filipino
Enrico S. Cruz	63	Independent Director	Filipino
Bienvenido E. Laguesma	70	Independent Director	Filipino
Baby Gerlie I. Sacro	43	Corporate Secretary	Filipino
Candy H. Dacanay – Datuon	42	Compliance Officer	Filipino
Imelda Lacap	43	Comptroller	Filipino
Ma. Editha D. Alcantara	49	Treasurer	Filipino

The Board of Directors of the company is composed of seven (7) members, three (3) are male, and four (4) are female. No director of the company concurrently serves as a director in five or more listed companies.

The business experience of the Directors and Executive Officers are as follows:

***(1) Lucio L. Co, Filipino, 66 years old, Chairman of the Board of Directors***

Mr. Co is the Chairman and President of the following companies: Bellagio Holdings, Inc., Canaria Holdings Corporation, Ellimac Prime Holdings, Inc., Invescap Incorporated, Puregold Duty Free, Inc., and Puregold Properties, Inc.

He is the Chairman of the Alcorn Petroleum and Minerals Corporation, Entenso Equities, Inc., NE Shopping Centers Corporation, P.G. Holdings, Inc., Pajusco Holdings Corporation, Puregold Duty Free (Subic), Inc., Puregold Finance, Inc., Puregold Realty Leasing & Management, Inc., San Jose City I Power Corp., Union Energy Corporation, and Union Equities, Inc.

He is one of the Directors of these companies: Catuiran Hydropower Corporation, Cleangreen Energy Corporation, Forbes Corporation, Grass Gold Renewable Energy (G2REC) Corporation, Karayan Hydropower Corporation, Kareila Management Corporation, LCKK & Sons Realty Corporation, Luis Co Chi Kiat Foundation, Inc., Meritus Prime Distributions, Inc., Montosco, Inc., League One Finance and Leasing Corporation, Pamana Water Corporation, Tower 6789 Corporation and VS Gripal Power Corporation.

Mr. Co is holding the following positions in other Philippine listed companies: Director of Philippine Bank of Communications, Chairman of Puregold Price Club, Inc. and Chairman of Da Vinci Capital Holdings, Inc.

He is a member of the Board of Trustees of Luis Co Chi Kiat Foundation, Inc.

Mr. Co has been an entrepreneur for the past 40 years.

***(2) Jose Paulino L. Santamarina, Filipino, 57 years old, Director and President.***

Jose Paulino Santamarina or JP, Filipino, is currently the President of Premier Wines and Spirits, Inc. - one of the leading companies in the imported wine and spirits industry - and a company he helped co-found in 1996.

Prior to Premier, JP was the Chief Financial Officer (1988 - 96) of CMG Marketing, Inc., a subsidiary of United Distillers Ltd., the precursor of what is now known as Diageo. CMG was a pioneer in the imported wine and spirits industry, established during the early stages of market liberalization in 1986.

Before CMG, he was an auditor of the professional firm SGV from 1984 to 1988, right after college.

He holds directorship and/or officer positions in the following companies: Booze On-line, Inc., Cleangreen Energy Corporation; Karayan Hydropower Corporation, Liquorph Distributors Corp., Pamana Consortium, Inc., Pamana Water Corporation, Premier Wine and Spirits, Inc. (Chairman and President), San Jose City I Power Corp.,

Southern Utility Management and Services Incorporation, Technowater Corporation, and VS Gripal Power Corporation.

JP graduated at Ateneo de Davao University, Bachelor Of Science in Accountancy. He is a Certified Public Accountant.

***(3) Camille Clarisse P. Co, Filipino, 32 years old, Director.***

Ms. Co is currently the Chairman and President of Meritus Prime Distributions, Inc. She is also a Director of Alerce Holdings, Corp., Blue Ocean Holdings, Corp., CHMI Hotels and Residences, Inc., Fertuna Holdings, Corp., Invesco Company, Inc., KMC Realty Corporation, League One, Inc., Montosco, Inc., Nation Realty Inc., P.G. Holdings, Inc., Patagonia Holdings, Corp., Pure Petroleum Corp., Premier Wine and Spirits, Inc. Puregold Properties, Inc., S&R Pizza, Inc., SPC Resources, Inc., Union Equities, Inc., VFC Land Resources, Inc.

Ms. Co is a graduate of De La Salle University with a degree of Bachelor of Arts in Psychology in 2009.

***(4) Janelle O. Uy, Filipino, 32 years old, Director.***

Ms. Uy is the Chairman and President of Montosco, Inc. Her previous experience includes working as a Key Account Manager in Unilever Philippines from 2009 to 2013.

She graduated from the De La Salle University with a degree in Applied Corporate Management in 2009.

***(5) Robin Derrick C. Chua, Filipino, 31 years old, Director.***

Mr. Chua is the Managing Director of Premier Wine and Spirits, Inc. from 2018 up to the present. He also worked in various consumer marketing and sales roles in Unilever Philippines and overseas from 2012 to 2018.

He is a graduate of Ateneo de Manila University with a degree of Bachelor in Management and a Minor in Entrepreneurship in 2012.

***(6) Enrico S. Cruz, Filipino, 63 years old, Independent Director.***

Mr. Cruz is currently an Independent Director of Security Bank Corporation, where he is also the Chairman of Risk Oversight Committee and Vice Chairman of the Audit Committee, Member Nominations and Remuneration Committee and Finance Committee. He is the incumbent Vice Chairman and a member of Engagement and Underwriting Committee of SB Capital Investment Corporation.

He is also an Independent Director of AREIT, Inc (Ayala Land REIT Company), where he chairs the Audit Committee, and is a member of the Related Party Transactions, Corporate Governance and Nominations, Compensation and Benefit and Risk

Oversight Committees. Mr. Cruz is also an Independent Director of Maxicare Corporation and a member Audit and Related Party Transactions Committees.

He is part of the Board of Directors of CIBI Information Inc,

Mr. Cruz previous experience includes being the Chief Country Officer (CCO) of Deutsche Bank AG Manila Branch from 2003 until his retirement in 2019. Before he joined Deutsche Bank, he was a Senior Vice President at Citytrust Banking Corporation (CTBC), an affiliate of Citibank N.A.

He was a Director of the Bankers Association of the Philippines (BAP) from 2003 to 2007, and from 2011 to 2015. He was again elected to the Board of the BAP and was appointed 2nd Vice President and Secretary from 2017 to 2020. As a BAP Director, he was likewise the Chairman of the Capital Markets Committee (2017-2019) and Open Market Committee (2019-2020).

Mr. Cruz was also a Director of Deutsche Knowledge Services RHQ, Deutsche Regis Partners, Philippine Dealing and Exchange Corporation, and Philippines Securities Settlement Corporation. He is also a past President of the Money Market Association.

He obtained his B.S. in Business Economics and MBA from the University of the Philippines. He was named by the UP College of Business as a Distinguished Alumnus in 2008 and also a Distinguished Alumnus Awardee by the UP School of Economics Alumni Association.

***(7) Bienvenido E. Laguesma Filipino, Filipino, 70 years old,  
Independent Director.***

Mr. Laguesma is a Senior Partner at Laguesma Magsalin Consulta Law Offices, Independent Director of Philippine Bank of Communications and Cosco Capital, Inc., both are listed companies. He is also a Director of Rural Bank of Angeles, Cavite United Rural Bank, Asia United Leasing & Finance Corp., and Asia United Fleet Management Services, Inc.

He served as Secretary of the Department of Labor and Employment from 1998 to 2001, Commissioner of Social Security System from 2011 to 2016. He also became Presidential Assistant of the Office of the President of the Republic of the Philippines from 1996 to 1998, Undersecretary of the Department of Labor and Employment from 1990 to 1996, Administrator in the National Conciliation and Mediation Board from 1987 to 1990, Regional Director of the Department of Labor and Employment from 1982 to 1986, Assistant Regional Director from 1981-1982, and Executive Labor Arbiter, National Labor Relations Commission from 1979 to 1981. Mr. Laguesma started his public service as Labor Arbiter of the National Labor Relations Commission in 1979 and Provincial Director of Bataan Provincial Labor Office 1978 to 1979, and Mediator-Arbiter of the Bureau of Labor Relations from 1976 to 1978.

Atty. Laguesma completed his Career Executive Development Course from the Development Academy of the Philippines from 1984 to 1985 and Public Administration Course from the Royal Institute of Public Administration in London,



United Kingdom in 1985. Lyceum of the Philippines awarded Atty. Laguesma, with an Outstanding Alumnus award in 1971, Doctor of Humanities, Honoris Causa, by the Adamson University in 1999, and Doctor of Humanities, Honoris Causa, by the Central Colleges of the Philippines in 2016.

He is a member of the Integrated Bar of the Philippines since 1976, the Philippine Bar Association since 2004, and the Rotary Club of Manila since 2002.

Atty. Laguesma graduated from the Lyceum of the Philippines with a degree of Bachelor of Arts major in Political Science in 1971 and Ateneo de Manila University College of Laws with a degree of Bachelor of Laws in 1975.

***(8) Ms. Baby Gerlie I. Sacro, Filipino, 43 years old, Corporate Secretary.***

Ms. Sacro has been the Corporate Secretary of Puregold Price Club, Inc. since 2000. She is a graduate of Polytechnic University of the Philippines with a degree of Bachelor of Science in Entrepreneurial Management. Before joining Puregold Price Club, Inc, she worked as a Compensation and Benefits employee at Plaza Fair, Inc.

***(9) Ms. Imelda Lacap, 43 years old, Comptroller.***

Ms. Lacap started as Audit Officer of Puregold Price Club, Inc. in 2001 before joining the liquor group in 2006. She is a graduate of Centro Escolar University – Malolos with a degree of Bachelor of Science in Accountancy in 1998. She is a Certified Public Accountant.

***(10) Ms. Candy H. Dacanay – Datuon, 42 years old, Assistant Corporate Secretary and Compliance Officer.***

Atty. Dacanay has been the Compliance Officer of the company since 2013.

Atty. Dacanay is a graduate of Colegio De San Juan de Letran with a degree of Bachelor of Arts in Political Science, with a distinction of *cum laude*. She finished Bachelor of Laws from the University of Santo Tomas in 2003 and admitted to the Philippine Bar in 2004.

Atty. Dacanay started her career as Associate Counsel of Puregold Price Club, Inc. from 2004 to 2011. She became the company's Assistant Corporate Secretary and at the same time Compliance Officer in 2012, and Data Privacy Officer in 2018.

Concurrently, she is the Assistant Corporate Secretary and Compliance Officer of Cosco Capital, Inc. (*a listed company*) and Corporate Secretary of Kareila Management Corporation (S&R warehouse) and Corporate Secretary and Compliance Officer of League One Finance and Leasing Corporation.

Atty. Dacanay has recently completed the Harvard Business School Online Certificate Program, "*Sustainable Business Strategy*", in 2020.

***(11) Ms. Editha D. Alcantara, 49 years old, Treasurer.***

Ms. Alcantara serves as Chairman of Blue Ocean Holdings, Inc. and Jurist Realty, Inc.; President of PSMT Philippines, Inc.; Vice-President and Treasurer of Invescap Incorporated; Treasurer of Blue Ocean Foods, Inc, KB Space Holdings, Inc., Maxents Investments, Inc. and Premier Freeport, Inc., Director of Cosco Price, Inc., Fertuna International Trading, Inc., Subic Freeport Zone Hamburgers Corporation and Corporate Secretary of P.G. Holdings, Inc.

Ms. Alcantara is a graduate of Polytechnic University of the Philippines with a degree of Bachelor of Economics and Politics in 1992.

**Independent Directors**

As approved by the Board of Directors, the procedure for the nomination of independent directors shall be as follows:

The nomination of independent directors shall be conducted by the Nominations Committee prior to the Annual Meeting. All recommendations shall be signed by the nominating stockholders together with the acceptance and conformity by the nominees for election. The Nominations Committee 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.

After the nomination, the Nominations Committee shall prepare a Final List of Candidates which shall contain all the information about all the nominees for independent directors, as required by existing and applicable rules, which list, shall be made available to the Commission and to all stockholders through the filing and distribution of the information statement, or in such other reports the Company is required to submit the Commission. The name of the person or group of persons who recommended the nomination of the independent director shall be identified in such report including any relation with the nominee.

Only nominees whose names appear on the final list of candidates shall be eligible for election as independent directors. No other nomination shall be entertained after the final list of candidates shall have been prepared. No further nominations shall be entertained or allowed on the floor during the actual annual stockholders' meeting.

All nominees for independent director do not have a relationship with the Company which would interfere with the exercise of independent judgment in carrying out responsibilities of a director. None of them are related to any of the directors or officers of the Company.

Mr. Lucio L. Co, Chairman, has recommended the nominations of Messrs. Cruz and Laguesma as independent directors for the ensuing year. Mr. Lucio L. Co is not related to any of the mentioned nominees.

The Nominations Committee has taken into consideration the qualifications to be an Independent Director. Attached as *Annexes “J”, and “K”* are the Certificates of the Qualifications of the Nominees for Independent Directors.

**(B) Significant Employees**

There is no person in the company who is not an executive or key officer but who is expected to make a significant contribution to the operation of the business.

**(C) Family Relationships**

None of the directors/independent directors and executive officers of the company, or nominees for election to such positions has any family relationships up to the fourth civil degree by consanguinity or affinity, except for Mr. Lucio L. Co who is related by consanguinity to Ms. Camille Clarisse P. Co.

**(D) Involvement in Certain Legal Proceedings**

As of December 31, 2020, and the past five years, the company has no director, executive officer or principal officer who is involved in any of the following:

- (1) Bankruptcy case.
- (2) Convicted by final judgment of any criminal proceeding, domestic or foreign.
- (3) The subject of any order, judgment, or decree of any court of competent jurisdiction permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities, or banking activities.
- (4) Being found by a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body or a domestic or foreign exchange or other organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended or vacated.

**(E) Certain Relationships and Related Transactions**

The company has no operation since 2013, and therefore has no related party transactions, other than the Stockholders’ Advances for working capital of the company as disclosed in the 2020 Audited Financial Statements attached hereto as *Annex “A”*.

**(F) Resignation of directors**

No director has resigned or declined to stand for re-election to the board of directors since the date of the last annual meeting of security holders because of a disagreement with the company on any matter relating to the company’s operations, policies or practices.

## **(G) Election of Directors Including Independent Directors**

The nominees for the election of Directors are the same as the incumbent set of Directors, including the Independent Directors.

## **Item 6. Compensation of Directors and Executive Officers**

The Company has no operation or business; thus, it is not paying executive compensation.

No action shall be taken with regard to any of the following:

- (a) any bonus, profit sharing or other compensation plan, contract or arrangement in which any director, nominee for election as a director, or executive officer of the registrant will participate;
- (b) any pension or retirement plan in which any such person will participate; or
- (c) the granting or extension to any such person of any option/s, warrant/s or right/s to purchase any securities, other than warrants or rights issued to security holders as such, on a pro rata basis. However, if the solicitation is made on behalf of persons other than the registrant, the information required need be furnished only the nominees of the persons making the solicitation and associates of such nominees.

Nonetheless, please see relevant discussion below:

### **(A) Summary of Compensation Table**

The company has no operation or business; thus, it is not paying the directors and executive officers compensation. The company is only paying directors a per diem allowances of P40,000.00 per board meeting.

### **(B) Standard Arrangements**

The company has no standard arrangements according to which the directors are compensated, directly or indirectly, for any services provided as a director except for per diem allowances.

### **(C) Other Arrangements**

The company has no other arrangements according to which the directors are compensated, directly or indirectly, for any services provided as a director except for per diem allowances.

## **(D) Employment Contracts and Termination of Employment and Change-in-Control Arrangements**

All employees, including executive and principal officers, have employment contracts with the company, which are consistent with the existing labor laws of the country. The company has a retirement plan for its employees that is also in concordance with current labor laws.

## **(E) Warrants and Options**

There are no warrants and options.

## **Item 7. Independent Public Accountants**

(a) The company's external auditor for 2020 is:

Mr. Gregorio I. Sambrano Jr.  
Handling Audit Partner  
CPA License No. 088825  
SEC Accreditation No. 1548-AR-1 (Group A) valid until December 17, 2021.  
BIR Accreditation No. 08-001987-36-2018 valid until September 19, 2021 R.G.  
Manabat & Co.  
The KPMG Center, 9/F 6787 Ayala Avenue, Makati City Philippines  
+63 (2) 885 7000

(b) Mr. Gregorio I. Sambrano, Jr. or his representatives are expected to be present at the security holders' meeting; they will have the opportunity to make a statement, if they desire to do so; and they are expected to be available to respond to appropriate questions.

(c) In year 2019, the company's external auditor was R.G. Manabat & Co., and the handling audit partner was Mr. Gregorio I. Sambrano Jr.

(d) In 2019, upon recommendation by the management, the company retained R.G. Manabat & Co. as external auditor with Mr. Gregorio I. Sambrano Jr. as the handling partner.

The company will still recommend to the stockholders the engagement of R.G. Manabat & Co., as the independent public accountant, with the same handling audit partner.

### *Audit and Audit-Related Fees*

The external auditor was engaged primarily to express an opinion on the company's financial statements. The procedures conducted for this engagement included those that are necessary under auditing standards generally accepted in the Philippines but did not include detailed verification of the accuracy and completeness of the reported income and costs and expenses. The audit fees for these services were One Hundred Fifty Thousand Pesos (PhP150,000.00) and Seventy-One Thousand Three Hundred Pesos (PhP71,300.00) for periods ended December 31, 2019 and 2018, respectively.

For the period ended December 31, 2020, the audit fee paid by the company to the external auditor is P150,000.00.

#### *Tax Fees*

The company did not engage the aforementioned external auditor for any service related to tax accounting, compliance, advice, planning or any other form of tax services for periods ended December 31, 2020 and 2019.

#### *All Other Fees*

The company did not engage the external auditor for any other service other than those described in the audit and audit-related fees above for periods ended December 31, 2020 and 2019.

#### *Audit Committee's Approval Policies and Procedures*

The company is still in the process of forming its Audit Committee, the functions thereof as well as the policies and procedures for the audit and audit-related services.

#### *Changes in and Disagreements with Accountants on Accounting and Financial Disclosures*

There was no change in the company's independent accountant or any disagreement with the independent accountant for the past two (2) fiscal years.

The company is also compliant with SRC Rule 68, Part 3(b)(iv)(ix), which provides that, "[t]he independent auditors or in the case of an audit firm, the signing partner, of the aforementioned regulated entities shall be rotated after every five (5) years of engagement. A two-year cooling off period shall be observed in the re-engagement of the same signing partner or individual auditor."

### **Item 8. Compensation Plans**

No action is to be taken up with respect to any plan pursuant to which cash or non-cash compensation may be paid or distributed during the meeting.

## **C. ISSUANCE AND EXCHANGE OF SECURITIES**

### **Item 9. Authorization or Issuance of Securities Other than for Exchange**

The present authorized capital stock of the company is P327,600,000.00, divided into 1,200,000,000 common shares with par value of P0.023 per share, and 3,000,000,000 preferred shares with par value of P0.10 per share.

*Increase in the Authorized Capital Stock to Php 2 billion and Issuance of up to 11,250,000,000 Common Shares to Cosco Capital Inc.*

The company is seeking approval from the stockholders to increase the authorized capital stock to PhP2 billion divided into Twenty (20) billion common shares, by (i) changing the par value of common shares to PhP 0.10 per share, (ii) converting the authorized preferred shares of Three Hundred Million Pesos (PhP300,000,000) divided into Three Billion (3,000,000,000) shares at PhP0.10 par value per share to common shares, and (iii) ultimately increasing the authorized common shares by One Billion Six Hundred Seventy Two Million Four Hundred Thousand Pesos (PhP1,672,400,000) divided into Sixteen Billion Seven Hundred Twenty Four Million (16,724,000,000) shares.

In relation to the increase in authorized capital stock, the company also seeks approval from the stockholder on the delegation to the Board of Directors of the authority to power and authority to determine the manner of subscription and the subscriber/s of the increase in authorized capital stock, such as but not limited to, public placement transaction or public offering.

The same features and rights as the existing and current common shares of the company shall apply to the authorized common shares from the converted authorized preferred shares and ultimate increase in authorized capital stock.

The company has accepted Cosco Capital Inc.'s offer to subscribe, at the issue price of PhP2.00 per share, in the proposed increase in the authorized capital stock of the company from PhP327.6 million to PhP2 billion. Upon obtaining regulatory approvals for the capital increase, the company will issue 11,250,000,000 common shares of stock in the name of Cosco Capital, Inc.

The proposed increase in authorized capital stock together with the subscription by Cosco Capital, Inc. will be submitted for stockholders' approval and are subject to the approval of the Securities and Exchange Commission (SEC). In relation to this, DAVIN shall seek confirmation from the SEC that the transaction is exempted from the registration requirement under the pertinent provisions of the Securities Regulation Code and its implementing rules and regulations.

- (a) Amount of capital stock of each class issued or included in the shares of stock to be offered.

A total of 11,250,000,000 common shares of stock to be issued to Cosco Capital, Inc.

- (b) If the registrant is offering common equity, describe any dividend, voting and preemption rights.

Each share is entitled to one (1) vote. No stockholder of the company shall have any pre-emptive or preferential right to subscribe for the remaining portion of the capital stock nor a pre-emptive or preferential right to subscribe for any increase thereof.

During the November 20, 2020 annual stockholders' meeting, the stockholders approved the delegation to the Board of Directors of the authority to determine the manner of subscription and the subscriber/s of the increase of authorized capital stock-common shares which will also be presented for the approval of the stockholders, including majority of the minority of the stockholders.

- (c) If the registrant is offering preferred stock, describe the dividend, voting, conversion and liquidation rights as well as redemption or sinking fund provisions.

No preferred stock shall be offered.

- (d) Describe any other material rights of common or preferred stockholders.

There are no other material rights given to common stockholders considering that there is only one class of share or no preferred stock shall be issued.

- (e) Describe any provision in the charter or by-laws that would delay, defer or prevent a change in control of the registrant.

There is no provision in the company's articles of incorporation or by-laws that would delay, defer or prevent change in control of the registrant.

#### *Follow-On Public Offering*

The company intends to conduct a follow-on public offering of its shares as soon as possible after the completion of the transaction described herein to comply with the minimum public ownership requirement under SEC and PSE rules.

In this regard, approval from the company's stockholders is requested on: (a) the conduct of follow-on public offering to comply with the minimum public ownership requirement; and (b) the issuance of up to three (3) billion common shares pursuant to the planned FOO of DAVIN shares.

Once regulatory approvals are obtained, all common shares to be issued by DAVIN will be applied for listing with the Philippine Stock Exchange.

The company expects to raise gross proceeds from PhP4 billion to PhP6 billion from the sale of up to three (3) billion shares. The net proceeds from the sale of shares (determined by deducting from the gross proceeds the underwriting, selling, and listing fees, taxes, and other related fees and expenses) will be used to finance strategic business expansion and other general corporate requirements of the Company.

#### **Item 10. Modification or Exchange of Securities**

The company is seeking approval from the stockholders to increase the authorized capital stock to PhP2 billion divided into Twenty (20) billion common shares, which will entail (i) changing the par value of common shares to PhP 0.10 per share, (ii) converting the authorized preferred shares of Three Hundred Million Pesos



(PhP300,000,000) divided into Three Billion (3,000,000,000) shares at P0.10 par value per share to authorized common shares amounting to Three Hundred Million Pesos (PhP300,000,000) divided into Three Billion (3,000,000,000) shares at the new par value of PhP 0.10 per share, as approved by the company's Board of Directors on April 29, 2021.

The current authorized preferred shares of the company remain unsubscribed, and no stockholder rights will be affected by the conversion.

The same features and rights as the existing and current common shares of the company shall apply to the authorized common shares from the converted authorized preferred shares.

The conversion is to make it more accessible to retail investors.

The authorized common shares of Three Hundred Million Pesos (PhP300,000,000) divided into Three Billion (3,000,000,000) resulting from the conversion of the authorized preferred shares will be applied for listing/registration together with the ultimate increase in authorized common shares of One Billion Six Hundred Seventy Two Million Four Hundred Thousand Pesos (PhP1,672,400,000) divided into Sixteen Billion Seven Hundred Twenty Four Million (16,724,000,000) common shares, as referred to in Item 9 above.

As to exchange of securities, please refer to the discussion under item 9 above under "Issuance of 11,250,000,000 Common Shares to Cosco Capital, Inc." for details on the exchange of securities.

## **Item 11. Financial and Other Information**

Attached hereto are the following:

- Annex "A" 2020 Audited Financial Statements
- Annex "A-1" 2020 Management Discussion and Analysis
- Annex "A-2" 1Q – 2021 Financial Statement
- Annex "A-3" MD&A – Montosco, Inc.
- Annex "A-4" MD&A – Meritus Prime Distributions, Inc.
- Annex "A-5" MD&A – Premier Wine & Spirits, Inc.

## **Item 12. Mergers, Consolidations, Acquisitions and Similar Matter**

On March 8, 2021, the management approved the proposed issuance of up to 11,250,000,000 common shares of stock of the company at the issue price of PhP2.00 per share in exchange for Cosco Capital, Inc.'s shares of stock in its subsidiaries, specifically:

- (a) 7,499,994 common shares in Montosco, Inc.,
- (b) 7,499,994 common shares in Meritus Prime Distributions, Inc., and
- (c) 1,499,993 common shares Premier Wine and Spirits, Inc.

On March 29, 2021, the Board of Directors of the company ratified the act of management to approve the proposal of Cosco Capital to subscribe to 11,250,000,000 common shares at P2.00 per share via the Share Swap Transaction, and confirmed that payment for the said Cosco Capital's subscription will be in the form of shares of stock in Montosco, Inc., Meritus Prime Distributions, Inc., and Premier Wine and Spirits, Inc.

On April 29, 2021, the Board of Directors approved the proposed amendments to DAVIN's Articles of Incorporation and By-laws, which include, among others, the increase in authorized capital stock to PhP2 billion divided into Twenty (20) billion common shares, which will entail (i) changing the par value of common shares to PhP 0.10 per share, (ii) converting the authorized preferred shares of Three Hundred Million Pesos (PhP300,000,000) divided into Three Billion (3,000,000,000) shares at P0.10 par value per share to authorized common shares amounting to Three Hundred Million Pesos (PhP300,000,000) divided into Three Billion (3,000,000,000) shares at the new par value of PhP 0.10 per share. The subscription of Cosco Capital to support the increase was also confirmed.

Once regulatory approval is obtained, all common shares to be issued by DAVIN will be applied for listing with the Philippine Stock Exchange. The share swap transaction and the additional listing of the shares are hereby presented to the company's stockholders for approval.

Upon completion of the share swap transaction, the company will legally and beneficially own 100% of the outstanding shares of each of Montosco, Inc., Meritus Prime Distributions, Inc., and Premier Wine and Spirits, Inc. As a corollary, Cosco will own 11,250,000,000 common shares or 98% of the outstanding shares of the company.

Approval is likewise being requested from the minority stockholders for the waiver to conduct a rights offering on the 11,250,000,000 common shares subject of the proposed Share Swap Transaction with Cosco Capital, Inc.

(1) Name, address & phone no. of the principal executive:

**A. Cosco Capital Inc.**

Name: LEONARDO B. DAYAO, President  
Address: No. 900 Romualdez St., Paco, Manila  
Phone No.: 8522-8801

**B. Montosco, Inc.**

Name: JANELLE O. UY, President  
Address: Unit 1501 Federal Tower, Dasmariñas St., San Nicolas, Manila  
Phone No.: 8243-5530

**C. Meritus Prime Distributions, Inc.**

Name: CAMILLE CLARISSE P. CO, President  
Address: Unit 1501 Federal Tower, Dasmariñas St., San Nicolas, Manila  
Phone No.: 8243-0635

**D. Premier Wine and Spirits, Inc.**

Name: JOSE PAULINO L. SANTAMARINA, President

Address: Gate 1, Tabacalera Compound, 900 Romualdez St., Paco, Manila

Phone No.: 8524-2117

- (2) Brief Description of the general nature of the business conducted by Cosco, Montosco, Meritus and Premier

*Cosco Capital, Inc.* is a domestic corporation registered with the SEC on January 19, 1988 for the primary purpose of investing in, purchasing, or otherwise acquiring and owning, holding, using, selling, assigning, transferring, mortgaging, pledging, exchanging, or otherwise disposing of real and personal property of every kind and description, including shares of stock, bonds, debentures, notes, evidences of indebtedness, and other securities or obligations of any corporation or corporations, association or associations, domestic or foreign, for whatever lawful purpose or purposes.

*Montosco, Inc. (“Montosco”)* is a domestic corporation registered with the SEC on August 13, 2008, and was incorporated for the primary purpose of trading goods on wholesale and retail basis.

*Meritus Prime Distributions, Inc. (“Meritus”)* is a domestic corporation registered with the SEC on February 17, 2010, and was incorporated for the primary purpose of buying, selling, exporting, manufacturing, bottling and distribution of all kinds of wines, liquors, beers and other alcoholic and non-alcoholic beverages, etc.

*Premier Wine and Spirits, Inc. (Premier)* is a domestic corporation registered with the SEC on June 19, 1996, and was incorporated for the primary purpose of buying, selling, distributing and marketing at wholesale all kinds of goods, commodities and merchandise.

- (3) Summary of the material features of the Share Swap Transaction

- (a) A total of 11,250,000,000 common shares of stock shall be issued to Cosco Capital, Inc. (“Cosco”), at the issue price of PhP2.00 per share, and in exchange, Cosco Capital shall transfer all its shares in Montosco, Meritus and Premier.
- (b) The purpose of engaging in the transaction is to support the increase in authorized capital stock of the company, and to implement the proposed Share Swap Transaction. Likewise, it is a means to raise additional capital either through Public Offering or private placement, or combination of both, to fund the company’s projects and investments consistent with its business purposes.
- (c) Each common share to be issued is entitled to one (1) vote. No stockholder of the company shall have any pre-emptive or preferential right to subscribe for the remaining portion of the capital stock nor a pre-emptive or preferential right to subscribe for any increase thereof.

(d) The transaction shall be considered as an equity transaction.

(e) No preferred stock shall be offered. There are no other material rights given to common stockholders considering that there is only one class of share or no preferred stock shall be issued. during the February 19, 2021 special meeting of the Board, the directors of the company approved the issuance of common shares to Cosco Capital, Inc.

(4) Brief Statements as to the dividends in arrears/defaults in principal or interest of the company and Cosco

There are no dividends in arrears/defaults in principal or interest in respect of any securities of the company, Cosco, Montosco, Meritus and Premier, which will be affected by the Share Swap Transaction.

(5) Historical and pro forma basis of the following information in relation to the company and Cosco, including Montosco, Meritus and Premier:

	2020	2019	2018
Net sales or operating revenues (in PhP)	-	-	-
Income (loss) from continuing operations (in PhP)	(1,088,534.98)	(1,048,020.75)	(947,771.35)
Long-term obligations and redeemable preferred stock (in PhP)	-	-	-
Book Value per share (in PhP)	0.0125	0.0135	0.0144
Cash Dividends declared per share (in PhP)	-	-	-
Income (loss) per share from continuing operations (in PhP)	(0.00097)	(0.00093)	(0.00084)

2018	Da Vinci	Cosco (as Parent Company)	Montosco	Meritus	Premier
Net sales or operating revenues (in PhP)	0.00	1,053,754,323	5,291,847,624	923,272,269	2,368,580,890
Income (loss) from continuing operations (in PhP)	-947,771.35	733,312,220	880,546,741	84,494,041	87,951,281
Long-term obligations and redeemable preferred stock (in PhP)	0.00	4,738,262,456	11,747,820	3,678,442	13,255,672

2019	Da Vinci	Cosco (as Parent Company)	Montosco	Meritus	Premier
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Net sales or operating revenues (in PhP)	0.00	1,802,368,868	8,155,525,111	958,828,756	1,603,043,62
Income (loss) from continuing operations (in PhP)	- 1,048,020.75	1,437,116,666	1,479,709,485	109,878,189	96,183,324
Long-term obligations and redeemable preferred stock (in PhP)	0.00	4,694,577,373	674,969,257	760,153	10,471,977

<b>2020</b>	<b>Cosco</b>	<b>Da Vinci</b>	<b>Montosco</b>	<b>Meritus</b>	<b>Premier</b>
Net sales or operating revenues (in PhP)	1,808,584,223.86	-	6,106,846,192	839,540,715	1,221,016,898
Income (loss) from continuing operations (in PhP)	1,425,589,218.86	(1,088,535)	1,070,463,227	66,645,672	42,735,135
Long-term obligations and redeemable preferred stock (in PhP)	927,620,755.00	-	83,795,276	694,701	80,247,447

(6) Historical and pro forma per share data of the company and Cosco, including Montosco, Meritus and Premier:

<b>2018</b>	<b>Cosco (as Parent Company)</b>	<b>Da Vinci</b>	<b>Montosco</b>	<b>Meritus</b>	<b>Premier</b>
Book Value per share (in PhP)	12.08	0.014	312.48	144.30	596.50
Cash Dividends declared per share (in PhP)	0.1	0.00	13.33	3.33	0.00
Income (loss) per share from continuing operations (in PhP)	0.20	-0.008	117.41	11.27	58.63

<b>2019</b>	<b>Cosco (as Parent Company)</b>	<b>Da Vinci</b>	<b>Montosco</b>	<b>Meritus</b>	<b>Premier</b>
Book Value per share (in PhP)	12.08	0.013	453.66	152.60	627.15
Cash Dividends declared per share (in PhP)	0.12	0.00	6.67	0.00	0.00
Income (loss) per share from continuing operations (in PhP)	0.198	-0.0009	197.30	14.65	64.12

<b>2020</b>	<b>Cosco</b>	<b>Da Vinci</b>	<b>Montosco</b>	<b>Meritus</b>	<b>Premier</b>
Book Value per share (in PhP)	12.15	0.01	569.67	161.50	655.31
Cash Dividends declared per share (in PhP)	0.16	0.00	26.67	-	-
Income (loss) per share from continuing operations (in PhP)	0.20	(0.0010)	142.73	8.89	28.49

- (7) Regulatory requirements that must be complied with or approval that must be obtained in connection with the transaction

The Share Swap Transaction is subject to the approval of, and compliance with, the requirements of the Securities and Exchange Commission, Bureau of Internal Revenue, Philippine Stock Exchange, and the Philippine Competition Commission.

- (8) Information of the outside party which provided a report, opinion or appraisal relating to the Share Swap Transaction

A copy of the Valuation and Fairness Opinion Report dated April 8, 2021, issued by Isla Lipana & Co., is attached as **Annex “D”**.

- (A) Identify the outside party

Isla Lipana & Co., the Philippine member firm of the PwC network.

- (B) Brief description of the qualification of such

Isla Lipana & Co. is an accredited valuer by both the Philippine Stock Exchange ("PSE") and Securities and Exchange Commission ("SEC"), and is also accredited to issue fairness opinions and valuation reports for listed companies and prospective listing applicants.

Isla Lipana & Co. performs audit, taxation, advisory and Japanese business services, and has provided professional services in the Philippines for 98 years.

- (C) Methods of selection used

A. The income approach, using discounted cash flows (“DCF”) method, was used as the primary method in estimating the fair value of the shares of the Subject Entities.

The Subject Entities / Liquor Distribution Companies are as follows:  
Montosco, Inc. (“Montosco”), Meritus Prime Distributions, Inc. (“Meritus”) and Premier Wine & Spirits, Inc. (“PWSI”)

B. The market approach was used (1) in estimating the value of the Listed Shell Company and to (2) cross-check the Subject Entities' value estimated using the DCF method.

(1) Since Da Vinci is listed on the PSE and has no significant operations yet, the value that may be considered is the shell value of a publicly-listed company. Transactions involving a private company's takeover of a publicly-listed shell company for the purpose of a reverse acquisition were reviewed to estimate the premium usually paid by buyers over the net book value of a shell company.

(2) The relative valuation of the Liquor Distribution Companies was based on comparable companies and precedent transactions.

(D) Any material relationship between the outside party or its affiliates and the issuer which existed during the past 2 years or is mutually understood to be contemplated and any compensation received or to be received as a result of such

During the past two fiscal years, Isla Lipana & Co. did not have any transactions with Cosco, Montosco, Meritus and Premier. Cosco and Da Vinci did not enter into any arrangement, contract, understanding or negotiation in the past, other than the proposed Share Swap Transaction.

(E) If report, opinion or appraisal relates to the fairness of the consideration, state whether the issuer/affiliate determined the amount of consideration to be paid or the outside party recommended the amount of consideration.

The swap ratios were determined by the Board of Directors of Cosco. Isla Lipana issued an opinion on the fairness of the swap ratios used, based on the estimated equity values of the Liquor Distribution Companies and Da Vinci.

(F) Summary concerning such negotiation, report, opinion or appraisal which is included but not limited to the procedures followed; findings & recommendations; bases for and methods of arriving at such findings and recommendations; instruction received from the issuer or affiliate; and any limitation imposed by the issuer or affiliate on the scope of the investigation. Based on the valuation results, the estimated total value of the Liquor Distribution Companies is between PHP20,740.7m to PHP24,245.8m. This was cross-checked using the market approach, which arrived at an estimated total value ranging from PHP18,343.1m to PHP27,848.0m under comparable company analysis and PHP21,428.7m to PHP25,801.7m under precedent transaction analysis.

Using the shell premium analysis, the estimated value of Da Vinci is between PHP320.6m to PHP603.4m.

For complete details on the valuation report, please refer to the attached Valuation and Fairness Opinion dated April 8, 2021, which is attached as ***Annex "D"***.

(9) There are no past, present or proposed material contracts, arrangements, understanding, relationships, negotiations or transactions during the past 2 fiscal years between Cosco, Montosco, Meritus, and Premier or its affiliates and the company or its affiliates.

(10) High and low sale prices of Cosco and the company as of April 29, 2021, which shall be specified, preceding public announcement of the proposed Share Swap Transaction,

**A. Da Vinci Capital Holdings, Inc.**

High : PhP2.94

Low : PhP2.81

**B. Cosco Capital, Inc.**

High : PhP 5.13

Low : PhP 5.00

As for **Montosco, Meritus and Premier**, there no such public announcement since these corporations are not publicly listed.

**Information for the company, Cosco, Montosco, Meritus, and Premier**

***I. Da Vinci Capital Holdings, Inc.***

A. Description of Business

1. Business Development

a. Form and Year of Organization

The company was incorporated as Mariwasa Manufacturing, Inc. on November 5, 1953 to primarily engage in the manufacture of ceramic tiles.

b. Any Bankruptcy, Receivership or Similar Proceedings

None.

c. Any Material Reclassification, merger, Consolidation or Purchase or Sale of a significant amount of assets (not ordinary)

None, except for the increase in authorized capital stock and purchase of shares in Montosco, Meritus and Premier from Cosco.

2. Business of Issuer

a. Description of the Business of Registrant and its Significant Subsidiaries

(1) Principal Products or Services and Their Market: None



- (2) Percentage of Sales or Revenues and Net Income Contributed by Foreign sales for each of the last 3 FYs: None
- (3) Distribution Methods of the Products or Services: None
- (4) Status of Publicly-Announced New Products or Service: None
- (5) Competitive Business Conditions and the Registrant's Competitive Position in the industry and methods of competition: None
- (6) Sources and Availability of Raw Materials and Names of Principal Supplier: None
- (7) Dependence on One or a Few Major Customers and Identification of Such: None
- (8) Transactions With and/or Dependence on Related Parties: None
- (9) Patents, Trademarks, Licenses, Franchises, Concessions, Royalty Agreement, or labor contracts including duration: None
- (10) Need for Any Governmental Approval of Principal Products or Services: None
- (11) Effect of Existing or Probable Governmental Regulations on the Business: None
- (12) Estimate of Amount Spent for Research and Development Activities: None
- (13) Costs and Effects of Compliance w/ Environmental Laws: None
- (14) Total Number of Employees and Number of Full Time Employees: None
- (15) Major risk/s involved in each of the business of the company: None

b. Additional requirements as to certain Issues or Issuer

The company is not involved in debt issues and is not an investment company.

B. Description of Property

The company does not own or lease any property. Also, the company does not intend to acquire any property in the next twelve (12) months.

C. Legal Proceedings

There is no material pending legal (civil, criminal, administrative or arbitration) proceeding in which the company is involved or any of its property is a subject of.

Other information:

A. Market Price of and Dividends

## 1. Market Information

### a. Identification of the Principal Market or Markets where the Registrant's Common Equity is Traded

(1) State the name of the Exchange.

Philippine Stock Exchange.

(2) Presentation of the High and Low Sales Prices for Each Quarter within the last two (2) fiscal years and any subsequent interim period for which Financial Statements are required by SRC Rule 68.

Period	2019		2020		2021	
	High	Low	High	Low	High	Low
1 <sup>st</sup> Quarter	6.74	5.5	5.46	4.5	8.98	2.51
2 <sup>nd</sup> Quarter	5.9	5.01	5	4	-	-
3 <sup>rd</sup> Quarter	6.15	5.0	4.3	3.1	-	-
4 <sup>th</sup> Quarter	6.15	5.0	6.03	3.12	-	-

## 2. Holders

As of March 31, 2021, the company has the following record of stockholders:

Number of Stockholders on Record	473
Issued Shares	1,124,999,969
Outstanding Capital Stock	1,124,999,969
Treasury Shares	-
Listed Shares	1,124,999,969

The company's top 20 stockholders as of March 31, 2021, are as follows:

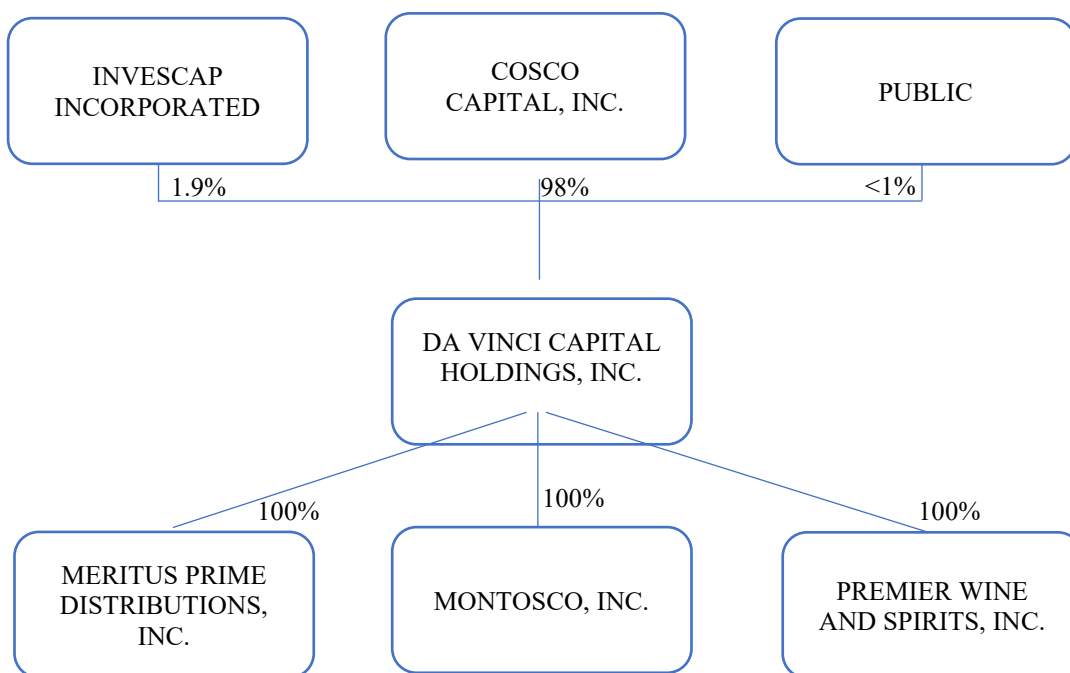
1	INVESCAP INCORPORATED	956,203,336	85%
2	COL FINANCIAL GROUP, INC.	41,424,888	3.68%
3	BDO SECURITIES CORPORATION	15,272,854	1.36%
4	FIRST METRO SECURITIES BROKERAGE CORP.	12,161,731	1.08%
5	ABACUS SECURITIES CORPORATION	8,717,064	0.77%
6	SB EQUITIES, INC.	7,614,400	0.68%
7	BPI SECURITIES CORPORATION	7,232,550	0.64%
8	TGN REALTY CORP.	5,897,775	0.52%
9	TIMSON SECURITIES, INC.	5,241,400	0.47%
10	PHILSTOCK FINANCIAL, INC.	4,676,163	0.42%
11	TOWER SECURITIES, INC.	4,126,500	0.37%
12	GLOBALINKS SECURITIES & STOCKS, INC.	3,248,900	0.29%
13	AAA SOUTHEAST EQUITIES, INCORPORATED	2,919,200	0.26%
14	EVERGREEN STOCK BROKERAGE & SEC., INC.	2,704,200	0.24%

15	AB CAPITAL SECURITIES, INC.	2,408,800	0.21%
16	SUNSECURITIES, INC.	2,400,000	0.21%
17	R.COYIUTO SECURITIES, INC.	1,983,000	0.18%
18	MAYBANK ATR KIM ENG SECURITIES, INC.	1,877,600	0.17%
19	F. YAP SECURITIES, INC.	1,850,150	0.16%
20	A&A SECURITIES, INC.	1,598,700	0.14%

a. Effects in the company before and after the Share Swap Transaction:

BEFORE THE SHARE SWAP TRANSACTION	AFTER THE SHARE SWAP TRANSACTION
Authorized Capital Stock: P327,600,000.00 (1,200,000,000 Common Shares with par value of P0.023 per share and 3,000,000,000 Preferred Shares with par value of P0.10 per share)	Authorized Capital Stock: P2,000,000,000.00 (20,000,000,000 Common Shares with par value of P0.10 per share)
Outstanding Capital Stock: P25,874,999.29	Outstanding Capital Stock: P1,150,874,999.28
Paid-Up Capital Stock: P25,874,999.29	Paid-Up Capital Stock: P1,150,874,999.28

After the Share Swap Transaction, the company's ownership structure will be as follows:



### 3. Dividends

There were no dividends declared for the year ended December 31, 2020.

### 4. Recent Sales of Unregistered or Exempt Securities including Recent Issuance of Securities Constituting an Exempt Transaction

There were no sales of unregistered securities within the fiscal year covered by this report.

The 2020 Financial Statements of the company is attached as *Annex "A"* and Management Discussion and Analysis as *Annex "A-1"*.

## **II. Cosco Capital, Inc.**

### A. Description of Business

#### 1. Business Development

##### a. Form and Year of Organization

Cosco Capital, Inc. is a domestic corporation registered with the SEC on January 19, 1988.

##### b. Any Bankruptcy, Receivership or Similar Proceedings

None.

##### c. Any Material Reclassification, merger, Consolidation or Purchase or Sale of a significant amount of assets (not ordinary)

None.

#### 2. Business of Issuer

##### a. Description of the Business of Registrant and its Significant Subsidiaries

###### (1) Principal Products or Services and Their Market

Cosco Capital, Inc. is an investment holding company. It has a diversified portfolio of business interests in the following industries and business segments:

###### *Retail Segment: Puregold Price Club, Inc., Office Warehouse*

Puregold Price Club, Inc. ("Puregold" or "the company") was incorporated on September 8, 1998, and opened its first Puregold hypermarket store in Mandaluyong City in December of the same year. In 2001, it began its expansion by building two additional hypermarket stores in the cities of Manila and Parañaque. It also launched its loyalty program, which was eventually renamed "Tindahan ni Aling Puring" in 2004.

Between 2002 to 2006, Puregold continued its expansion at an average of three new stores every year and established operations in North and South Luzon.

In 2008, Puregold was recognized by Reader's Digest Asia as the Most Trusted Brand in the supermarket category. To expedite market coverage, a new format called "Puregold Jr. Supermarket" was introduced in the 4th quarter of 2008. By mid-2009, the company gained market leadership being the second-largest hypermarket and supermarket retailer in the Philippines in terms of net sales. By 2010, it was already operating 62 stores, and launched another format called "Puregold Extra." In the same year and henceforth, Puregold was recognized by Retail Asia Pacific as one of the top 500 retailers among the 14 economies of the region.

2011 saw the highest number of store openings in Puregold history with the launch of 38 new stores making its number of stores to a total of 100. In the following year, Puregold acquired another related retail company, which was later called "S&R Membership Shopping," under the corporate name "Kareila Management Corporation," with six S&R Membership Shopping Warehouses (patterned after the Costco and Sam's Club in the USA). Puregold also opened 31 new Puregold organic stores and acquired Gant Group of Companies known as "Parco supermarkets" with 19 stores.

In 2013, Puregold acquired another supermarket chain, Company E Corporation, with 15 stores and opened 40 new stores. S&R opened two warehouses located in Davao Province and Mandaluyong City. Company E and Gant Group of Companies later merged with Puregold.

In 2014, Puregold opened 28 stores, one S&R store, and four S&R New York Style Pizza/quick-service restaurants (QSR). In the same year, Puregold partnered with Lawson, Inc. and Lawson Asia Pacific Pte Ltd. under a joint venture company called PG Lawson, Inc. to build and operate a chain of Lawson convenient stores. However, in 2018, Puregold divested from the joint venture and sold to Lawson, Inc. all its share in PG Lawson, Inc.

In 2015, Puregold opened 15 hypermarkets, 11 supermarkets, one S&R Warehouse, and 10 QSRs. Puregold opened another 15 hypermarkets, eight supermarkets, two extras, one minimart, 2 S&R Warehouse, and 7 QSRs in 2016.

In 2017, Puregold opened 35 stores comprising of 25 hypermarkets, five minimarts, and five supermarkets. Another 30 stores, 20 hypermarkets, seven minimarts, and three supermarkets, were opened in 2018.

By 2019, Puregold was operating a total of 229 hypermarkets, 102 supermarkets, 28 extra, 19 minimarts, 18 S&R warehouse clubs, 38 S&R-QSRs, for a total of 434 stores.

As of December 31, 2020, Puregold operates a supermarket chain of 403 stores all over the Philippines. The stores are classified as hypermarkets, supermarkets, extras and mini-marts depending on the size of the selling area and location of the store. In the past three (3) years, the total number of stores increased from 354 in 2018 to 403 in 2020.

## *Office Warehouse*

Office Warehouse was incorporated on August 20, 1997. In 2014, the company bought Office Warehouse with 46 stores. At present, Office Warehouse has 89 stores, mostly in Metro Manila and South Luzon. Under the new management, Office Warehouse has been a provider and a partner consultant to small and medium enterprises when it comes to quality, cost-efficient, and value-adding office solutions.

For the past three years, Office Warehouse consistently surpassed annual historical sales and recorded compounded growth of at least 16.5%. This robust performance is a result of its dedication and persistence in addressing market demands and resiliency to the changing retail landscape. Office Warehouse keeps itself abreast of technological trends and capitalizes on its impact on the macro-economic behavior of businesses.

In 2019, Office Warehouse grew by 17% and ended the year with 89 retail doors, 67 of which are in Metro Manila and 22 in nearby provinces. It operated on a total of brick and mortar space of about 16,300 square meters.

Office Warehouse is likewise present online and does e-commerce using its website. It believes in the power of social media; thus, Office Warehouse also uses this forum for its marketing and advertising initiatives. Conversely, Office Warehouse also strengthens its brand by conducting caravans in various offices and universities. Office Warehouse serves as the physical touchpoints with the market it serves in their place of engagement.

Office Warehouse continues to offer a relevant and up-to-date product mix and assortment at best possible price. It continues to improve its supply chain capability by automating orders for product replenishment and streamlining its cross-docking services. It is still maintaining its transportation fleet for deliveries to store and customers, and at the same time, engaging with third-party logistical services to ensure prompt order fulfillment.

To maximize its online presence, Office Warehouse is now partnering with several marketplaces for e-commerce. It is also working on e-payment platforms and other technology-driven tenders for its general business.

*Real Estate Segment: Ellimac Prime Holdings, Inc., Fertuna Holdings Corporation, Patagonia Holdings Corp., Nation Realty, Inc., NE Pacific Mall, and Pure Petroleum, Inc.*

For the past three years, the company consistently maintained its growth in rental revenues. Aside from the annual increment on rental rates, the company was able to develop six new community malls which are strategically located in the following areas: (1) Marikina Heights, Marikina City, (2) General Trias, Cavite, (3) Subic, Zambales, (4) Putatan, Muntinlupa, (5) Maria Aurora, Aurora Province and lastly the recently opened community center in (6) Bayawan City, Negros Oriental. With the most recent development in Bayawan comes two modern movie theatre auditoriums with one hundred two seating capacities each as added amenities for our mall-goers.

The company also was able to partner with a Malaysian-brand "Mr. DIY" to cater more consumers for the coming years. The real estate segment also got to associate itself with Robinson's brands like Handyman, Daiso, and Saver's Appliances. Sy-led businesses like Ace Hardware and Watson's are also aggressive in their partnership with the group. As of year ended 2019, the group has at least 3,500 leasable spaces across NCR, Luzon, and the Visayas, which is growing over the years as the company expands.

The company also acquired four parcels of land held for future development located at Antipolo, Laoag, Cabatuan, Iloilo, and Barotac-Nuevo, Iloilo. These additions contributed a total of 32,940 square meters of land owned by the group.

Ellimac Prime Holdings, Inc. is the flagship of the real estate companies of the company. The commercial retail buildings of Ellimac are being leased out mostly by prominent retail tenants that support the retail customers of Puregold Price Club, Inc. One of which is the 'Fairview Terraces.' The Fairview Terraces is the second commercial shopping complex that was co-developed with Ayala Land, Inc., and it is located in the prime commercial area of Quezon City. The Fairview Terraces houses an extensive mix of foreign and local brands, offering an array of dining and shopping experiences for families and professionals.

Fertuna Holdings Corporation is considered to be the stronghold of the company in Central Luzon. Fertuna, together with Ayala Land Inc., co-developed a commercial retail complex called "Harbor Point." It is situated in Subic Bay Freeport Zone. Harbor Point opened in September 2012, where Puregold Supermarket became its anchor tenant.

Fertuna's Harbor Point Mall lies within the eco-friendly environment of Subic Bay. The 6.5-hectare mall development is a registered Subic Bay Freeport Enterprise operating in the Freeport Zone. Fertuna is governed by the rules and regulations of the Subic Bay Metropolitan Authority (SBMA) under Republic Act 7277, making it entitled to tax and duty-free importation of certain items.

Patagonia Holdings Corp. is the company's rising force in the Bonifacio Global City acquired parcels of land, summing a total land area of 1.3 hectares. The strategic location of the property in the growing business district is a promising investment venture for the company. Patagonia provided the opportunity to have S&R Membership Shopping operate a retail outlet in its property since 2000. The viable location of the land worked to their advantage. It became accessible to patrons and consumers. It became a steady market for S&R's retail outlet.

Nation Realty, Inc. operates "999 Shopping Mall" located in Binondo, Manila. It is a specialty mall, a modern approach to a flea market, or 'tiangge.' The 999-shopping mall is the shopping hub for Filipino shoppers and resellers who want to purchase useful quality items at low prices.

The 999-shopping mall has two developments. The first development is a four-story building with 31,931 square meters gross floor area, and the second is a seven-story building with a total floor area of 84,292 square meters.

The company acquired NE Pacific Mall in March 2014. It is considered to be the ultimate shopping and family entertainment destination in the province of Nueva Ecija. It is located at km. 111 Maharlika Highway, Cabanatuan City, Nueva Ecija. The 10-hectare parcel of land where the shopping center is built has a total gross floor area of more than 35,000 square meters. The mall has leasable spaces for different brands and establishments and houses a line of tenants such as the supermarket, department store, hardware and appliance centers, restaurants, and many others. One of the key tenants of the mall is Puregold Price Club, Inc. and government satellite offices of Social Security System, Philippine Statistics Authority, and Philippine Health Insurance. This one-stop shopping haven not only provides a unique shopping experience for the family but also brings great value for their money.

Pure Petroleum, Inc. constructed a fuel terminal facility inside the Subic Bay Freeport Zone in 2009, which became operational in December 2012. It currently operates a tank farm of 9 fuel storage tanks with a total capacity of 88.5 Million liters combined Diesel and Gasoline products, 7 Ethanol tanks of various sizes (350KL, 100KL, and 50KL) with a total capacity of 700KL and 5 CME storage tank 50KL size with a full capacity of 250KL. The terminal also operates jetty facilities for bulk loading and unloading, two units mooring buoy, water storage tank for fire protection and maintenance as well as truck loading rack. It has adopted the best practices of the oil industry, applicable policies and procedures to ensure safe and efficient operation.

*Wine and Liquor Segment: Montosco, Inc., Meritus Prime Distributions, Inc, and Premier Wine and Spirits, Inc.*

The imported liquor industry continues to grow, driven by the economy and premiumization. It is another industry where the company plays an influential role. The company has trading relationships with the world's biggest spirits and wine producers, carrying either the top or number-two brands in their respective categories in its portfolio.

It also markets key brands in wine, energy drinks, and premium water categories.

The three companies within the Cosco Capital umbrella that work closely with brand owners, to build and grow these brands are Montosco Inc., Meritus Prime Distributions, Inc. and Premier Wines and Spirits, Inc.

Montosco is the lead company, having in its portfolio "Alfonso" the number one imported brand in the country by volume and value. It drives the liquor segment's revenue and bottomline. Completing Montosco's portfolio is Diageo- the leading spirits company in the world - having Johnnie Walker as its leading brand. A unique trading relationship with Diageo has been established, including exclusively on key brands.

Meritus prides itself by carrying the number one bourbon whisky brand in the world, "Jim Beam" and its strong relationship with Beam Suntory group - the third-largest spirits producer in the world. It also represents the portfolio of W. Grants where Glenfiddich, the leading single malt whisky in the world, is among its key brands. Rounding the list for Meritus are Roku and Hendricks- the hottest craft gin brands in the market.



The depth and breadth of Premier's portfolio are difficult to match, having the right balance in its collection of spirits, wines, and premium energy drinks and sparkling water lines.

Strengthening relationships, Premier and Pernod Ricard, the second-largest spirits company in the world, formed a joint venture partnership, establishing Pernod Ricard Philippines, Inc., to be the marketing and distribution arm of Pernod brands in this market. Amongst Premier's key brands is Jose Cuervo, the world's leading tequila, "Jinro", the top spirits brand in the world, "Penfolds", world's most admired wine brand, "RedBull", world's number 1 energy drink and "Perrier", the leading sparkling water in the world.

With the brands it carries, the relationships it has established, and the organization it has built, the liquor segment fundamentals are solid. It is poised to steadily grow and take on the challenges ahead.

*Oil & Mining Segment: Alcorn Petroleum and Minerals Corporation*

Alcorn Petroleum and Minerals Corporation was incorporated on July 5, 2013, as a wholly-owned subsidiary of Cosco Capital, Inc. to pursue the exploration and development of the company's interests in oil and mining business activities. The oil and mining interests include a portfolio of participating investments in petroleum exploration and extraction activities in the Palawan area and Eastern Visayas region.

- (2) Percentage of Sales or Revenues and Net Income Contributed by Foreign sales for each of the last 3 FYs

Cosco Capital, Inc. or any of its subsidiaries has no branch or sale outside the Philippines.

- (3) Distribution Methods of the Products or Services

Puregold Price Club, Inc. replenishes and distributes its merchandise to various stores in the following manners:

a. Direct-to-store delivery - A substantial portion of the company's inventory and other supplies and materials, about 68%, are delivered directly by suppliers to the stores. Considering the bulk of the business, the company can order a truckload of merchandise direct from the suppliers. The company receives orders and merchandise within an average 7-days from receipt of purchase orders.

b. Cross-dock facilities – About 32% of the suppliers who are unable to deliver to the company's stores directly deliver their products to the company's two out-sourced cross-dock facilities for onward distribution to Puregold stores.

c. Store-to-store transfer – All of the company's stores have a stockroom on-premises with warehousing capabilities for additional inventory. However, there are stores with

large warehouses that can accommodate goods intended for nearby small-format stores. As needed, products are transferred from a large store to a small store.

d. Importation - S&R sends out buyers all over the world to source for its best products. S&R imports 45% - 55% of its merchandise. It currently operates its three distribution centers.

Office Warehouse's suppliers directly deliver to stores or cross-dock the items through its warehouse facility. Office Warehouse sells to customers through in-store purchases, phone-in-service for delivery and pick-up, or by an e-commerce shopping site.

(4) Status of Publicly-Announced New Products or Service: None.

(5) Competitive Business Conditions and the Registrant's Competitive Position in the industry and methods of competition

Hypermarkets, Shopwise/Rustan's, Robinsons, Metro Gaisano, and Walter-Mart. But smaller formats like Alfamart of S.M. group are also becoming our strong competitors; likewise, the online retailers, Lazada, Shopee, Zalora, Grab Food, Food Panda, and Metromart.

Landers has the same membership shopping format as S&R. It offers imported products as well and caters to the "A" and "B" class segment of our population.

Office Warehouse prides itself as the only retail store with the workplace-solution format, where you can buy everything you may need for your office or business. There are no direct competitors, but it competes with various companies for different categories. For school and office supplies, it competes with National Bookstore with 240 stores, and display spaces are at least 3x the size of an Office Warehouse branch, it has the depth and width of product assortment and has a legacy business appealing primarily to the educational market. It also competes with Pandacan Bookshop with at least 120 branches operating mainly in the provinces of Luzon attracting students and homemakers by its various type of merchandise at very low pricing. For business technology, Octagon with over 150 branches nationwide, specializing in technology items and Silicon Valley with about 60 branches nationwide and competes with Octagon.

Office Warehouse strategies to counter competition: Its mantra of "cost-cutting measures start here" because businesses love to cut costs, and end-consumers love to save money. It offers better pricing and remains competitive. It sells only genuine products from direct sources, particularly with multi-national brands. Its branches are strategically located in Mega Manila and parts of Luzon. Office Warehouse has aggressive promotions such as quarterly themed promos, yard sales and flash events offering price offs and attractive deals and relevant loyalty program for its customers like Points Plus+ Membership Program with exclusive perks and discounts, and point earning and redemption. It also has an online shopping site, [www.officewarehouse.com.ph](http://www.officewarehouse.com.ph), that caters to many customers across the country.

The real estate group caters to people from all walks of life. Everyone is welcome to enjoy and shop at our community malls to satisfy their needs, whether essential or non-essential.

Our commercial buildings are located in crowded places like public markets, CBD areas, and the likes where competition is fierce. The company is offering competitive rental rates coupled with discounts considering the higher rates within the malls' vicinity. Thus, providing the customers and public an opportunity to start businesses inside our malls opening up to a bigger market of customers.

Cosco Capital, Inc. also boasts the most massive classic "tiangge" style of shopping at the heart of Divisoria, Manila, by the brand of "999 Shopping Mall". The mall currently has an inter-connecting two buildings with a total gross leasable area of almost 51,000 square meters with at least 2,700 leasable space. The mall is surrounded by other community malls like "168 Shopping Mall", "11/88 Shopping Mall", and the "Lucky Chinatown Mall." With a higher number of tenants, 999 Shopping Mall can cater to more consumers compared to its competitors within the Divisoria area.

Lastly, the imported wine and spirits industry as of the present is still a niche (single-digit share) to the total alcohol beverage industry in the country (including local).

Cosco Capital, Inc. has nationwide coverage through sub-distributors, but the bulk of business is mainly in urbanized areas. It sells to all channels of the segment like supermarkets, wholesalers, on-premises outlets (hotels, restaurants, and bars).

The depth, breadth, and leadership position of the brands in the portfolio that the group carries are difficult to match. Major competitors include but not limited to Future Trade Inc., Phil Wine Merchant, Wine Warehouse, among others. They offer different brands that the group carries.

#### (6) Sources and Availability of Raw Materials and Names of Principal Supplier

With over 2,000 regular suppliers, Puregold's supplier base is diversified between local suppliers such as Universal Robina Corporation, Monde Nissin, Century Pacific Food, Inc., and multi-national corporations such as Nestle, Unilever, and Procter & Gamble. The company selects its suppliers using several criteria, including product assortment and quality, market share of the company in a particular supplier's location, brand reputation, supplier's capacity, Company business plans and budgets, logistic possibilities, and compliance with the company's economic principles.

S&R sources the majority of its merchandise from global vendors who have been supplying to membership clubs worldwide for an extended time.

Office Warehouse imports 95% of office furniture. 95% of its technology products and about 75% of its office and school supplies are from local suppliers. Office Warehouse has imported products exclusively distributed by several suppliers like Fellowes for a shredder, binding and laminating machines, Schneider for writing instruments, and Eagle for desk accessories and filing supplies. Other significant suppliers are Brother, Epson, Hewlett-Packard, Canon for printing machines, and Mongol for writing tools.

Except for office furniture, almost all categories have enough suppliers to make up their needed supply for the market demand.

(7) Dependence on One or a Few Major Customers and Identification of Such

Puregold Price Club believes that its business is not dependent on any single supplier. Puregold's three largest food suppliers are Nestlé Philippines, Universal Robina Corporation, and Monde Nissin. Puregold's three largest non-food suppliers are Procter & Gamble, Unilever Philippines, and Globe Telecom Inc.

Further, Puregold is not reliant on a single or few customers but to the buying public in general. The company's stores target customers who live within walking distance of its stores and those who use personal or public transport to shop. Puregold provides suitable car parking facilities to accommodate customers who travel to stores by car and also locates its stores in areas close to main transportation hubs. The company also offers delivery services to resellers who are unable to travel to the company's stores.

Likewise, S&R is not dependent on a single or few customers but to the buying public in general who become members.

Puregold believes that its stores can address the needs of its customers through its extensive product range, a large selection of food as well as non-food products, and an increasing share of private label products. The company divides its customers into several categories:

a. Retail consumers: S&R is targeting "A" and "B" market class, which comprise 4% of the population of the Philippines. This segment has an average income of over 80,000 per month. Puregold, on the other hand, targets "C" and "D" market class. These consumers have an average income of P12,000 to P80,000. A typical ticket for retail consumers ranges from P600 to P3,000 per shopping trip at a frequency of two to four times per month.

b. Resellers: Consisting of resellers, small to medium size sari-sari stores, as well as canteens, restaurants, caterers, bakeries, convenience, and drug stores. As of December 31, 2019, there were over 500,000 business owners registered with the company.

Office Warehouse is not dependent upon a single customer or a few customers, but to various customers ranging from students, employees, entrepreneurs, and all types of businesses.

Wine and Liquor Segment brings in finished products from principal suppliers, namely Bodegas Williams & Humbert, Diageo Philippines, Inc., DBBV, William Grants, Brown Forman Brands, Suntory Beam, Treasury Wine Estate, Proximo. Existing supply contracts are on an exclusive and continuing basis, terms reviewed on an annual basis

(8) Transactions With and/or Dependence on Related Parties

Please refer to 2020 Consolidated Audited Financial Statements, *Annex "E"*, of Cosco Capital, Inc. for the complete discussion of its transaction with related parties.

(9) Patents, Trademarks, Licenses, Franchises, Concessions, Royalty Agreement, or labor contracts including duration

Please refer to the complete list of trademarks registered by Cosco Capital, Inc. and its subsidiaries, *Annex "F"*.

(10) Need for Any Governmental Approval of Principal Products or Services

Cosco Capital, Inc. and its subsidiaries have obtained all permits, licenses, and approvals from national and local government units and other government agencies necessary to construct and lease supermarket buildings and operate the same.

(11) Effect of Existing or Probable Governmental Regulations on the Business

Due to COVID 19 restrictions implemented by the National and Local Governments in 2020, Cosco Capital, Inc. and subsidiaries experienced shortened store hours and a limited number of customers' admission. They were likewise prohibited from selling liquor products in the stores and restricted the sale of cleansing materials such as alcohol, tissue for a certain period of time.

(12) Estimate of Amount Spent for Research and Development Activities: None.

(13) Costs and Effects of Compliance w/ Environmental Laws

Cosco Capital, Inc. and subsidiaries estimate its annual cost for maintaining and renewing the ECCs and other environmental permits for all its existing stores to be about P63 million.

(14) Total Number of Employees and Number of Full Time Employees

As of December 31, 2019, Cosco Capital Inc. has 10, 875 employees. The following table sets out specific details of the employees by location, functions, and status:

Department	Puregold and S&R	Real Estate	Office Warehouse	Wine & Alcohol Distribution	&Alcorn	Total
Store Operations	8,512	81	103	58	0	9,354
Head Office	1,831	89	85	115	1	1,521
<b>Total</b>	<b>10,343</b>	<b>170</b>	<b>188</b>	<b>173</b>	<b>1</b>	<b>10,875</b>
<b>Rank</b>						
Executive	22	2	1	4	0	29
Senior Manager	106	2	11	8	0	127
Manager	511	23	30	6	0	570

Officer	573	17	5	0	1	596
Supervisory	3,764	31	94	46	0	3,935
Rank & File	5,367	95	47	109	0	5,618
<b>Total</b>	<b>10,343</b>	<b>170</b>	<b>188</b>	<b>173</b>	<b>1</b>	<b>10,875</b>
<b>Employment Status</b>						
Regular	8,051	120	175	156	1	8,503
Probationary	1,232	50	13	17	0	1,312
Contractual	1,060	0	0	0	0	1,060
<b>Total</b>	<b>10,343</b>	<b>170</b>	<b>188</b>	<b>173</b>	<b>1</b>	<b>10,875</b>

- (15) Major risk/s involved in each of the business of the company and subsidiaries. Include a disclosure of the procedures being undertaken to identify, assess and management such risks

Cosco Capital, Inc. considers the following significant risks that may have a potentially adverse effect on its financial condition and operation, as follows:

(1) Market risk (a) Competition – Cosco Capital Inc.'s grocery retailing businesses are highly competitive. The intensity of the competition in the Philippine modern retail industry varies from region to region. Some of the significant competitors considered by the company are the S.M. malls, supermarkets and hypermarkets, Robinson's Supermarkets, Metro Gaisano, All Home, and Rustan's Supercenters. The competition includes product selection, product quality, and customer service, and store locations.

Cosco Capital, Inc. performs market research to locate areas that will maximize market coverage and penetrate its targeted customers. This careful selection of store locations and focus on specific markets has enabled it to build brand strength and loyalty across its targeted customer base.

For its specialty mall-999 Shopping Mall, competition is reasonably manageable. The mall is strategically located in Divisoria and very accessible. The risk of low occupancy is remote. Cosco Capital, Inc. maintains a group that specializes in marketing, handling, and communicating with the tenants, which are mostly those retailers from Mainland China.

As our liquor distribution business caters to the imported and premium segment of liquor and wines market, we see no significant risk. It has its market niche and does not directly compete with the local brands.

(b) Supply - A supply shortage and disruption and the price volatility may adversely affect the operations and financial performance of the company. The company addresses this risk by regularly monitoring its inventories and ensuring that the inventory is always at its optimum level. The company continuously deals with a wide range of suppliers to ascertain that its merchandising requirements are filled through the year.

(c) Credit - Cosco Capital Inc.'s fast-paced operation requires sufficient liquidity throughout the year. Failure of Cosco Capital, Inc. to collect their trade receivables on time could potentially affect its ability to pay its suppliers on time or increase financing cost should working capital financing be resorted to bridge temporary liquidity gaps. Cosco Capital, Inc. maintains a credit and collection policy, ensuring that receivables are collected on time.

(d) Pricing - Cosco Capital, Inc.'s economic condition and market competition are the main drivers of this risk. Any adverse change in the economic environment of the Philippines may affect the purchasing power of consumers and unfavorably affect the company's operating results. Low-growth consumer market means a low-demand growth and low turnover for the company. The entry of new competitors may trigger a more aggressive price competition among industry players as they try to dominate the market. The company's continuous expansion and revenue growth help mitigate this risk and allow the company to develop better competitive pricing strategies. Pricing strategies are constantly reviewed to remain competitive and to attract or retain customers. Also, unnecessary costs or expenses are to be avoided by reviewing the supply chain management and eliminating non-value adding activities, which will allow the company to offer lower prices.

(2) Regulation and compliance risk - Cosco Capital, Inc. monitors and oversees issuances or protocols from regulating bodies and ensures its compliance with these regulations.

As liquor is considered as a health hazard when taken in excess, the possible risk would be the issuance of regulation like the ban to alcohol drinking for some age groups, and curfew either or both from the national or local government. We consider this risk, however, as remote.

Oil exploration projects are under the supervision of the Philippine government's Department of Energy. Changes in policies or regulations or legislative and fiscal framework governing these activities may have a material impact on the exploration and development activities of the companies in these sectors. Also, changes in regulations may affect the company's operation and may increase the cost of doing business.

Upon the lapse of approval from regulatory authorities, there is no guarantee that these will be renewed or renewed under the terms acceptable to the company. The company ensures that the approvals and permits are valid by monitoring very well its validity period, compliance with the governmental regulations, constant communication with the authorities, and updating itself with the new laws and regulations.

(3) Environmental risk - Environment risk for the real estate business includes the effect of climate change like flooding, erosion, and other unforeseen calamities that might affect the real estate properties. Cosco Capital, Inc. mitigates this risk by carefully selecting the sites. There is a group within the company that conducts research and study in site selection, including the environmental factors.

The business of oil exploration and development carry environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions as well as existing Philippine laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on oil spills, releases or emissions of various substances produced in association with oil operations.

Cosco Capital, Inc.'s compliance with such legislation, including health and safety laws, can involve high costs and expenses and any breach in these laws may result in the imposition of fines and penalties, the amounts of which could be material. There can be no assurance that environmental regulations will not increase exploration and development costs or the curtailment of operations, which could adversely affect the results of operations and financial condition as well as its prospects.

Additional requirements as to certain Issues or Issuer

Cosco Capital, Inc. is not involved in debt issues and is not an investment company.

## B. Description of Property

As of December 31, 2019, Cosco Capital, Inc. owns the following properties:

### (a) Puregold

	Owned parcels of land	Owned buildings	Leased parcels of land	Leased buildings
North Luzon	2	24	25	90
South Luzon	8	27	29	87
Metro Manila	2	30	30	110
Visayas	2	0	0	34
Mindanao	0	3	3	10
Total Number	14	84	87	331
Total Square Meters	37,328.57	309,642.57	314,439.52	689,144.21

### (b) Kareila

	Owned parcels of land	Owned buildings	Leased parcels of land	Leased buildings
North Luzon	0	3	3	0
South Luzon	0	3	3	0
Metro Manila	0	8	8	0
Visayas	0	2	2	0
Mindanao	0	2	2	0
Total Number	0	18	18	0
Total Square Meters	0	205,068.64	333,065.06	0

### (c) Office Warehouse

The company leases all store spaces of Office Warehouse from various lessors; most of them are major mall operators and affiliate companies. The average area per store is



180 square meters, with varying rental rates depending on the location and lease terms of three to five years.

(d) Real Estate

Cosco Capital, Inc. closed 2019 with 34 commercial buildings with at least 277,000 square meters of gross leasable spaces, 97% or 269,000 square meters of which is occupied and leased out.

(e) Alcorn Petroleum has participating interests in the following petroleum and mineral exploration properties in the Philippines:

1. Service Contract (S.C.) No. 14 (B1)-North Matinloc

Service contract No. 14 is located in 350 meters of water, situated approximately offshore 60 kilometers N.W. from Palawan Island. SC No 14 is divided into four blocks (A, B, C & D). The Matinloc oil field is located in Block B1 under SC No. 14, located approximately 60 kilometers offshore from Palawan Island. SC No. 14 is divided into four blocks composed of Nido (Block A), North Matinloc (Block B1), West Linapacan (Block C), and the retention area (Block D). The company has participating interest in all except in the Nido Block A.

2. Service Contract No. 14 (C2)-West Linapacan, Offshore Northwest Palawan

The West Linapacan oil field is located in Block C2 under SC No. 14 and covers a total area of approximately 80 square kilometers. The block has produced more 8.3 million barrels of oil before the shut down because of water intrusion. A separate structure, West Linapacan "B, located 7.5 kilometers from "A" field structure, was drilled in March 1993 with well testing at a rate of 2,860 BOPD.

3. Service Contract No. 14 (D)- Retained Area

Cosco Capital, Inc. has a participating interest equivalent to 5.835% in the retained area under SC No. 14. The other members of the consortium are Philodrill Corp. (33.75%); Nido Petroleum Philippines Pty. Ltd. (31.42%); Oriental Petroleum and Mineral Corp. (20.83%); and Forum Energy Philippines Corp. (8.17%). The block is the subject of renewed interest by the partners and prompted the partners to allocate funds for its evaluation. Philodrill completed the geological and geophysical (G&G) assessment of the retained license area. The results are encouraging with promising plays and prospects that will be subject to further and more detailed study. The final recommendation of the study is for the consortium to continue retaining the block. APMC has 5.835% participating interest in the block.

4. Service Contract 6(A)

The SC No. 6(A) field is located in offshore Northwest Palawan covering 165,000 hectares of relatively shallow waters. Philodrill recently completed the resources assessment of Octon, and they came up with substantial figures. As an added highlight of the evaluation is the addition of another prospect in the block named "Barselisa".

## 5. Service Contract 6 (BJ-Bonita, Offshore Northwest Palawan)

The Bonita field under SC No. 6 (B) is located offshore northwest Palawan, adjacent to the Matinloc field of SC No. 14, with an area of 53,293 hectares. Philodrill continued to implement the approved work program and budget for the block. The work program includes satellite gravity study and its integration into the seismic interpretation, detailed mapping of Top Nido horizon in the northern part of the block with a focus on the Elephant Prospect, and three other structural closures presently identified and seismic processing of existing lines over the block.

## 6. Service Contract 51-East Visayan Basin

The contract area is located in the central part of the Philippine Archipelago. The contract area is defined by two disjointed blocks, namely an onshore-offshore block over Northwest Leyte and a largely deep-water block in Cebu Strait, between the islands of Cebu and Bohol with an aggregate area of 444,000 hectares.

Along with our partners in Phinma Petroleum and Geothermal, Inc. and PetroEnergy Resources Corporation, we advised the Department of Energy of our relinquishment of the area on July 4, 2018.

### *Use of Property*

Except for the oil and mining participating interest, Cosco Capital, Inc. uses its properties mostly for retail operations. There is no mortgage, lien, or encumbrance over any of the properties owned by the company that may limit or restrict its ownership or usage.

Lease provisions are mutually agreed upon by the parties and based on general standards set by the company in terms of rental, period, and other stipulations.

### *General Lease Provisions*

Lease periods are, on average, up to 25 years. Rental rates depend on the location and the condition of the property. All renewal of leases is upon mutual agreement of the parties.

## C. Legal Proceedings

There is no material pending legal (civil, criminal, administrative or arbitration) proceeding in which Cosco Capital, Inc. is involved or any of its property is a subject of.

### Other information:

#### A. Market Price of and Dividends

##### 1. Market Information

- a. Identification of the Principal Market or Markets where the Registrant's Common Equity is Traded

(16) State the name of the Exchange.

Philippine Stock Exchange.

(17) Presentation of the High and Low Sales Prices for Each Quarter within the last two (2) fiscal years and any subsequent interim period for which Financial Statements are required by SRC Rule 68.

Cosco Capital, Inc.'s common stock trades in the Philippine Stock Exchange under the symbol "COSCO" The quarterly high and low of stock prices (in Philippine Peso) for the last two fiscal years and in the current year are in the stated below:

Period	2019		2020		2021	
	High	Low	High	Low	High	Low
1 <sup>st</sup> Quarter	7.87	6.70	6.80	4.29	5.65	5.1
2 <sup>nd</sup> Quarter	7.70	6.56	5.61	4.78	-	-
3 <sup>rd</sup> Quarter	7.18	6.53	5.5	4.81	-	-
4 <sup>th</sup> Quarter	7.08	6.39	5.8	5.05	-	-

## 2. Holders

- a. Number of Holders of Each Class of Common Security

As of March 31, 2021, Cosco Capital Inc. has the following record of stockholders:

Number of Stockholders on Record	990
Issued Shares	7,405,263,564
Outstanding Capital Stock	7,197,029,564
Treasury Shares	208,234,000
Listed Shares	7,405,263,564

Cosco Capital Inc.'s Top 20 Stockholders as of March 31, 2021, are as follows:

1	CO, LUCIO L.	2,380,741,492.00	33.08%
2	CO, SUSAN P.	1,780,182,230.00	24.73%
3	CITIBANK N.A	339,504,141.00	4.72%
4	THE HSBC	256,640,427.00	3.57%
5	DEUTSCHE BANK MANILA-CLIENTS A/C	248,252,107.00	3.45%
6	ELLIMAC PRIME HOLDINGS, INC.	244,228,990.00	3.39%
7	CO, FERDINAND VINCENT P.	225,141,822.00	3.13%
8	CO, PAMELA JUSTINE P.	225,120,671.00	3.13%
9	STANDARD CHARTERED BANK	221,443,676.00	3.08%
10	VFC LAND RESOURCES, INC.	220,066,929.00	3.06%
11	KMC REALTY COPORATION	150,832,231.00	2.10%
12	CO, CAMILLE CLARISSE P.	106,838,231.00	1.48%

13	ANSALDO GODINEZ & CO., INC.	92,911,736.00	1.29%
14	KATRINA MARIE P. CO	58,884,384.00	0.82%
15	SPC RESOURCES, INC.	58,500,000.00	0.81%
16	COL FINANCIAL GROUP, INC.	48,508,968.00	0.67%
17	BDO SECURITIES CORPORATION	39,477,371.00	0.55%
18	ABACUS SECURITIES CORPORATION	30,198,766.00	0.42%
19	FIRST METRO SECURITIES BROKERAGE CORP.	28,425,277.00	0.39%
20	SB EQUITIES, INC.	28,372,535.00	0.39%

b. Effects in the company before and after the Share Swap Transaction:

None.

3. Dividends

Cosco Capital, Inc. declared the following cash dividends:

Declaration Date	Amount and Type of Dividend (R-regular, S-special)	Record Date	Payment Date
June 27, 2014	S – 0.06 per share	July 11, 2014	July 28, 2014
December 18, 2014	R – 0.06 per share S – 0.02 per share	January 12, 2015	February 5, 2015
December 18, 2015	R – 0.06 per share S – 0.02 per share	January 8, 2016	January 18, 2016
December 22, 2016	R – 0.06 per share S – 0.02 per share	January 12, 2017	January 20, 2017
December 15, 2017	R – 0.06 per share S – 0.04 per share	January 2, 2018	January 26, 2018
February 1, 2019	R – 0.06 per share S – 0.04 per share	February 15, 2019	March 1, 2019
December 18, 2020	R – 0.08 per share S – 0.04 per share	January 8, 2021	January 29, 2021
December 18, 2020	S – 0.04 per share	January 15, 2021	February 9, 2021

4. Recent Sales of Unregistered or Exempt Securities including Recent Issuance of Securities Constituting an Exempt Transaction

There were no sales of unregistered securities within the fiscal year covered by this report.

**(A) Directors and Executive/Key Officers**

The business experience of the Directors and Executive Officers of Cosco Capital, Inc. are as follows:

*LUCIO L. CO, Filipino, 66 years old, Chairman of the Board of Directors since 2012.*

Mr. Co is also the Chairman and President of the following companies: Bellagio Holdings, Inc., Canaria Holdings Corporation, Ellimac Prime Holdings, Inc., Invescap Incorporated, Puregold Duty Free, Inc., and Puregold Properties, Inc.

He is the Chairman of the Alcorn Petroleum and Minerals Corporation, Entenso Equities, Inc., NE Shopping Centers Corporation, P.G. Holdings, Inc., Pajusco Holdings Corporation, Puregold Duty Free (Subic), Inc., Puregold Finance, Inc.,

Puregold Realty Leasing & Management, Inc., San Jose City I Power Corp., Union Energy Corporation, and Union Equities, Inc.

He is one of the Directors of these companies: Catuiran Hydropower Corporation, Cleangreen Energy Corporation, Forbes Corporation, Grass Gold Renewable Energy (G2REC) Corporation, Karayan Hydropower Corporation, Kareila Management Corporation, LCKK & Sons Realty Corporation, Luis Co Chi Kiat Foundation, Inc., Meritus Prime Distributions, Inc., Montosco, Inc., League One Finance and Leasing Corporation, Pamana Water Corporation, Tower 6789 Corporation and VS Grial Power Corporation.

Mr. Co is holding the following positions in other Philippine listed companies: Director of Philippine Bank of Communications, Chairman of Puregold Price Club, Inc. and Chairman & President of Da Vinci Capital Holdings, Inc.

He is a member of the Board of Trustees of Adamson University and Luis Co Chi Kiat Foundation, Inc.

Mr. Co has been an entrepreneur for the past 40 years.

*SUSAN P. CO, Filipino, 63 years old, Vice-Chairman of the Board since 2013.*

Mrs. Co concurrently holds the following positions in other companies: Chairman and President of Cosco Price, Inc., Chairman of Tower 6789 Corporation and Director of Bellagio Holdings, Inc., Blue Ocean Holdings, Inc., Canaria Holdings Corporation, Ellimac Prime Holdings, Inc., Kareila Management Corporation, KMC Realty Corp., Meritus Prime Distributions, Inc., Montosco, Inc., NE Shopping Centers Corporation, P.G. Holdings, Inc., Patagonia Holdings Corp., PPCI Subic, Inc., Premier Wine and Spirits, Inc., Puregold Duty Free (Subic), Inc., Puregold Duty Free, Inc., Puregold Properties, Inc., Puregold Finance, Inc., Puregold Realty Leasing & Management, Inc., San Jose City I Power Corp., S&R Pizza (Harbor Point), Inc., S&R Pizza, Inc., Union Energy Corporation and Union Equities, Inc.

Mrs. Co is holding the following positions in other Philippine listed companies: Vice-Chairman of Puregold Price Club, Inc. and Director of Philippine Bank of Communications.

Mrs. Co received a Bachelor of Science degree in Commerce from the University of Santo Tomas.

*LEONARDO B. DAYAO, Filipino, 77 years old, President of Cosco Capital, Inc. since 2010.*

Mr. Dayao was the President of Puregold from 2005 to 2014. He was first elected on the board in 1998. He is also the Chairman and President of Fertuna Holdings Corp.; Chairman of Catuiran Hydropower Corporation, Grass Gold Renewable Energy (G2REC) Corporation, Kareila Management Corporation, League One Finance and Leasing Corporation, Pamana Water Corporation, PSMT Philippines, Inc., S&R Pizza, (Harbor Point) Inc., S&R Pizza, Inc.; Vice-Chairman of Ayagold Retailers, Inc.;

President of NE Pacific Shopping Centers Corporation, Puregold Duty Free (Subic), Inc., Puregold Finance, Inc., San Jose City I Power Corp., Union Energy Corporation; Vice-President of Alerce Holdings Corp., Bellagio Holdings, Inc., KMC Realty Corporation, Puregold Duty Free, Inc., Puregold Properties, Inc. and Union Equities, Inc.; and Director of Canaria Holdings Corporation, Entenso Equities Incorporated, Karayan Hydropower Corporation and Puregold Realty Leasing & Management, Inc.

Mr. Dayao is holding the following positions in other Philippine listed companies: Executive Director of Puregold Price Club, Inc. and Vice-Chairman of Philippine Bank of Communications.

He received a Bachelor of Science Degree in Commerce from the Far Eastern University. He is a Certified Public Accountant. He completed the Basic Management Program at the Asian Institute of Management and earned units in MBA from the University of the Philippines-Cebu.

*LEVI LABRA, Filipino, 63 years old, Director since 2017.*

Mr. Labra also serves as Director of Hope Philippines, Inc. He is holding the following positions in other Philippine listed companies: Board Consultant of Puregold Price Club, Inc. and Director of Philippine Bank of Communications.

Before joining the company, Mr. Labra worked in Procter & Gamble for 35 years. He was the Sales Head and a member of the management committee for 20 years. He was Regional Sales Manager for three years building sales organization and systems for India, Indonesia, Malaysia, Singapore, South Korea, and Thailand.

He graduated with honor, cum laude, from the University of San Carlos in 1978 of a degree of Bachelor of Science, major in Business Administration.

*ROBERTO JUANCHITO T. DISPO, Filipino, 56 years old, Director since 2017.*

Mr. Dispo is currently the President/CEO of League One Finance and Leasing Corporation, Chairman of Mercantile Insurance Corporation, Blacksburg Corporation, Pontificio Collegio Filipino in Rome, and Vice Chairman of New San Jose Builders.

Mr. Dispo was the former Vice Chairman and President of Cirtek Philippines from 2016 to 2019 and CEO of Quintel USA/UK from 2017 to 2019. He became President of First Metro Investment Corporation from 2011 to 2015, Senior Vice President and Executive Vice President of First Metro Investment Corporation from 1998 to 2010. He was a former Deputy Treasurer of the Philippines, National Treasury, Department of Finance from 1990 to 1997. Mr. Dispo started his career as Financial Analyst in the Department of Trade and Industry from 1988 to 1990 and Administrative Officer in the Department of National Defense from 1987 to 1988.

Mr. Dispo graduated with a degree of Bachelor of Science in Economics from the San Sebastián College, Manila in 1984. He took Bachelor of Science major in management from the Pamantasan ng Lungsod ng Maynila in 1990 and Masters in Business Administration from the same school in 1991. He completed a Diploma Program from

the International Banking and Finance, Economic Institute, University of Colorado in 1994 and Masters in Business Economics from the University of Asia and the Pacific in 2014.

He is a member of the Money Market Association of the Philippines since 1998 and FINEX since 2012.

Mr. Dispo was the CEO of the Year awardee in 2014 given by Asia CEO Awards and became Finalist in CNBC Asia Best CEO in 2014.

*ROBERT Y. COKENG, Filipino, 70 years old, Independent Director since 2013*

Mr. Cokeng is the Chairman of the Audit Committee of Cosco Capital, Inc.

Mr. Cokeng is currently the Chairman and President, F&J Prince Holdings Corporation (PSE-Listed), Magellan Capital Holdings Corporation, Center Industrial and Investment, Inc., and Consolidated Tobacco Industries of the Philippines. He is also the Chairman of Pointwest Technologies Corp., Ipad Developers Corp., Chairman of the Executive Committee of BPO International.

Mr. Cokeng started as Senior Investment Officer and Philippine Country Officer in International Finance Corp. (World Bank group), Washington, D.C. from 1976 to 1986 and Planning Associate in Mobil Oil Philippines from 1971 to 1972.

Mr. Cokeng is a member of Wack - Wack Golf & Country Club, Tagaytay Midlands Golf & Country Club, Balesin Island Club, Management Association of the Philippines, and an Advisory Board Member of Harvard Business School Club of the Philippines. Mr. Cokeng graduated with honors from the Ateneo University with a degree of Bachelor of Arts in Economics Honors Program in 1971, magna cum laude. He took a Masters in Business Administration program from Harvard University in 1976 and completed it with high distinction.

*OSCAR S. REYES, Filipino, 75 years old, Independent Director since 2013.*

Mr. Reyes is currently the Chairman of Link Edge, Inc. from 2002 up to the present. He was the former President & CEO of Manila Electric Company from 2012 to 2019, Senior Executive Vice-President & Chief Operating Officer of Manila Electric Company from 2010 to 2012. He was the Country Chairman of Shell Companies in the Philippines from 1997 to 2001 and held various executive positions in Pilipinas Shell Petroleum Corporation from 1971 to 2001.

Mr. Reyes completed Commercial Management Study Program, Shell International, United Kingdom in 1986, Program for Management Development at Harvard Business School in 1976, and with academic units completed in MBA at the Ateneo Graduate School of Business in 1971.

He is a member of the Management Association of the Philippines, FINEX, Asia Society of the Philippines, and the Employers Confederation of the Philippines.

Mr. Reyes is a graduate of the Ateneo de Manila University with a degree of Bachelor of Arts major in Economics in 1965 with a distinction of cum laude.

*BIENVENIDO E. LAGUESMA, Filipino, 70 years old, Independent Director since 2017.*

Mr. Laguesma is a Senior Partner at Laguesma Magsalin Consulta Law Offices, Independent Director of Philippine Bank of Communications (PSE-Listed), and Director of Rural Bank of Angeles, Cavite United Rural Bank, Asia United Leasing & Finance Corp., and Asia United Fleet Management Services, Inc.

He served as Secretary of the Department of Labor and Employment from 1998 to 2001, Commissioner of Social Security System from 2011 to 2016. He also became Presidential Assistant of the Office of the President of the Republic of the Philippines from 1996 to 1998, Undersecretary of the Department of Labor and Employment from 1990 to 1996, Administrator in the National Conciliation and Mediation Board from 1987 to 1990, Regional Director of the Department of Labor and Employment from 1982 to 1986, Assistant Regional Director from 1981-1982, and Executive Labor Arbiter, National Labor Relations Commission from 1979 to 1981. Mr. Laguesma started his public service as Labor Arbiter of the National Labor Relations Commission in 1979 and Provincial Director of Bataan Provincial Labor Office 1978 to 1979, and Mediator-Arbiter of the Bureau of Labor Relations from 1976 to 1978.

Atty. Laguesma completed his Career Executive Development Course from the Development Academy of the Philippines from 1984 to 1985 and Public Administration Course from the Royal Institute of Public Administration in London, United Kingdom in 1985. Lyceum of the Philippines awarded Atty. Laguesma, with an Outstanding Alumnus award in 1971, Doctor of Humanities, Honoris Causa, by the Adamson University in 1999, and Doctor of Humanities, Honoris Causa, by the Central Colleges of the Philippines in 2016.

He is a member of the Integrated Bar of the Philippines since 1976, the Philippine Bar Association since 2004, and the Rotary Club of Manila since 2002.

Atty. Laguesma graduated from the Lyceum of the Philippines with a degree of Bachelor of Arts major in Political Science in 1971 and Ateneo de Manila University College of Laws with a degree of Bachelor of Laws in 1975.

*JAIIME J. BAUTISTA, Filipino, 64 years old, Director since 2020.*

Mr. Bautista is currently a member of the Board of Trustees of the University of the East, UE Ramon Magsaysay Memorial Medical Center, International School of Sustainable Tourism, Philippine Eagle Foundation Inc. and member of the Board of Directors of Airspeed International Corp., Alphaland Corp., Gothong Southern Shipping Lines, Inc., Sabre Travel Network Phils. Inc.

He used to be the President of the Philippine Airlines, Inc. (PAL) from 2014 to 2019 and from 2004 to 2012. He was the Executive Vice-President of PAL from 1999 to 2004 and Senior Vice President – Chief Finance Officer from 1994 to 1998.



Mr. Bautista is a graduate of Colegio de San Juan de Letran, Intramuros, Manila, with a degree of Bachelor of Science in Commerce, Major in Accounting, 1977.

He completed a post-graduate course of Doctor of Philosophy in Humanities (Honoris Causa) from the Central Luzon State University, Muñoz, Nueva Ecija in 2018, and a Canada International Entrepreneurial Program from Capilano College, North Vancouver, British Columbia in 1990.

(2) Executive Officers

*TEODORO A. POLINGA, Filipino, 62 years old, Group Finance Comptroller since 2013.*

Mr. Polinga was the Senior Accounting Manager of the company in 2013 and became Comptroller in 2015.

He was the founding President and Director of MTM Ship Management (Philippines), Inc., 2013 to 2014, and Executive Director and Chief Finance Officer of Alchem Energy Limited from 2010 to 2012.

Mr. Polinga is a Sustaining Life Member of the Philippine Institute of Certified Public Accountants (PICPA), Member/Past Director of the Rotary Club of Makati – Legazpi and Director & Vice President of B.F. International Homeowners Association.

Mr. Polinga graduated with honors, magna cum laude, from the Holy Name University (Formerly Divine Word College of Tagbilaran City) with a degree of Bachelor of Science major in Accounting in 1978 and completed a Management Development Program from the Asian Institute of Management in 1990.

*JOSE S. SANTOS, JR., Filipino, 80 years old, Corporate Secretary since 2013.*

Atty. Santos is a practicing lawyer. He is a graduate of Lyceum of the Philippines with a degree of Bachelor of Laws in 1961. He became a member of the Philippine bar in 1961.

*CANDY H. DACANAY-DATUON, Filipino, 42 years old, Assistant Corporate Secretary and Compliance Officer since 2013.*

Atty. Dacanay is a graduate of Colegio De San Juan de Letran with a degree of Bachelor of Arts in Political Science, with a distinction of cum laude. She finished Bachelor of Laws from the University of Santo Tomas in 2003 and admitted to the Philippine Bar in 2004.

She started her career as Associate Counsel of Puregold Price Club, Inc. from 2004 to 2011. She became the company's Assistant Corporate Secretary and at the same time Compliance Officer in 2012, and Data Privacy Officer in 2018.

Concurrently, she is the Assistant Corporate Secretary and Compliance Officer of Puregold Price Club, Inc. (a listed company) and Corporate Secretary of Da Vinci Capital Holdings, Inc. (a listed company), Kareila Management Corporation (S&R

warehouse) and Corporate Secretary and Compliance Officer of League One Finance and Leasing Corporation.

Atty. Dacanay has recently completed the Harvard Business School Online Certificate Program, "Sustainable Business Strategy".

*EMERLINDA D. LLAMADO, Filipino, 59 years old, Internal Auditor since 2012.*

Before joining the company, she worked as System Assistant and Audit Manager from 1984 to 2012 with the Ever Gotesco group of companies. She graduated from the Far Eastern University with a degree of Bachelor of Science in Accountancy in 1984. Ms. Llamado is a Certified Public Accountant.

### *(3) Key Officers in Subsidiaries*

*FERDINAND VINCENT P. CO, Filipino, 39 years old, President of Puregold Price Club, Inc. since 2015.*

He concurrently holds the following positions: (1) Chairman and President of Alerce Holdings Corp., Blue Ocean Foods, Inc., Forbes Corporation, Invesco Company, Inc., KMC Realty Corporation, League One, Inc., PPCI Subic Inc., Patagonia Holdings Corp., Purepadala, Inc., and VFC Land Resources, Inc.; (2) President of Ayagold Retailers, Inc., Entenso Equities, Inc., and Union Equities, Inc.; (3) Director of Bellagio Holdings, Inc., Blue Ocean Holdings, Inc., Canaria Holdings Corporation, Cosco Price, Inc., Ellimac Prime Holdings, Inc., Fertuna Holdings Corp., Meritus Prime Distributions, Inc., P.G. Holdings, Inc., Premier Wine and Spirits, Inc., PSMT Philippines, Inc., Puregold Duty Free (Subic), Inc., Puregold Finance, Inc., Puregold Properties, Inc., Puregold Realty Leasing & Management, Inc., San Jose City Power Corp., Tower 6789 Corporation and Union Energy Corporation.

Mr. Vincent Co received a Bachelor of Science degree in Entrepreneurial Management from the University of Asia and the Pacific in 2003.

*ANTHONY SY, Filipino, 60 years old, S&R President since 2006.*

Before joining the company, Mr. Sy worked as President of Visual Merchandising Center from 1986 to 2006. He graduated from the Ateneo De Manila University with a degree of Bachelor of Science in Management Engineering in 1982.

*JOSEPH U. SY, Filipino, 57 years old, Operations Manager of Ayagold since 2017.*

Mr. Sy is one of the pioneer employees of Puregold. He was the first store manager in the first branch of the company in Mandaluyong City. Because of his long retail experience, Mr. Sy manages the big stores of Puregold in Metro Manila, and he is also heading the operation of 2 branches of Merkado, a joint venture project with Ayala Land, Inc.

He graduated from the Philippine School of Business Administration major in Accountancy in 1983. Mr. Sy is a Certified Public Accountant.

*IRAIDA B. DE GUZMAN, Filipino, 61 years old, President of Office Warehouse since 2014.*

Before joining Office Warehouse, Ms. De Guzman worked as Senior Vice-President of Puregold from 1999 to 2014. She is a graduate of Polytechnic University of the Philippines with a degree of Bachelor of Science in Commerce major in Economics.

*GIRLIE M. SY, Filipino, 57 years old, President of Nation Realty, Inc. since 2013.*

Ms. Sy started her career in Puregold Finance, Inc. as Finance and Administration Manager in 1995 up to the present and Finance and Admin Manager for Bellagio Holdings, Inc. in 2005 up to the present.

Ms. Sy is a graduate of Far Eastern University with a degree of Bachelor of Science in Psychology in 1983.

*JOAN C. JUSTO, Filipino, 45 years old, Leasing Manager of NE Pacific Shopping Centers Corporation since 2014.*

Ms. Justo has been with NE Pacific since 1997 under its previous and founding owners. She is a graduate of Lyceum of the Philippines with a degree of Bachelor of Science in Foreign Service in 1995.

*CAMILLE CLARISSE P. CO, Filipino, 32 years old, Chairman and President of Meritus Prime Distributions, Inc. since 2013.*

Ms. Camille Co is a Director of Alerce Holdings, Corp., Blue Ocean Holdings, Corp., CHMI Hotels and Residences, Inc., Fertuna Holdings, Corp., Invesco Company, Inc., KMC Realty Corporation, League One, Inc., Montosco, Inc., Nation Realty Inc., P.G. Holdings, Inc., Patagonia Holdings, Corp., Pure Petroleum Corp., Premier Wine and Spirits, Inc. Puregold Properties, Inc., S&R Pizza, Inc., SPC Resources, Inc., Union Equities, Inc., VFC Land Resources, Inc.

Ms. Co is a graduate of Dela Salle University with a degree of Bachelor of Arts in Psychology in 2009.

*JANELLE O. UY, Filipino, 32 years old, Chairman and President of Montosco, Inc. since 2013.*

Prior to joining the company, Ms. Uy worked as a Key Account Manager in Unilever Philippines from 2009 to 2013. She graduated from the Dela Salle University with a degree in Applied Corporate Management in 2009.

*ROBIN DERRICK C. CHUA, Filipino, 31 years old, Managing Director of Premier Wine and Spirits, Inc. from 2018 up to the present.*

Before joining the company, Mr. Chua worked in various consumer marketing and sales roles in Unilever Philippines and overseas from 2012 to 2018. He is a graduate of

Ateneo de Manila University with a degree of Bachelor in Management and a Minor in Entrepreneurship in 2012.

*JOSE PAULINO L. SANTAMARINA, Filipino, 57 years old, President of Premier Wines and Spirits, Inc. from 1996 up to the present.*

Mr. Santamarina is a graduate of the Ateneo De Davao University with a degree of Bachelor of Science in Accountancy.

### **(B) Significant Employees**

There is no person in Cosco Capital, Inc. who is not an executive or key officer but who is expected to make a significant contribution to the operation of the business.

### **(C) Family Relationships**

Mr. and Mrs. Lucio and Susan Co are husband and wife. Mr. Ferdinand Vincent P. Co, Ms. Pamela Justine P. Co, and Ms. Camille Clarisse P. Co are their children.

### **(D) Involvement in Certain Legal Proceedings**

As of December 31, 2020, and the past five years, Cosco Capital, Inc. has no director, executive officer or principal officer who is involved in any of the following:

- (1) Bankruptcy case.
- (2) Convicted by final judgment of any criminal proceeding, domestic or foreign.
- (3) The subject of any order, judgment, or decree of any court of competent jurisdiction permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities, or banking activities.
- (4) Being found by a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body or a domestic or foreign exchange or other organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended or vacated.

For discussion of related party transactions, please refer to the **2019 Audited Financial Statements** hereto attached as *Annex "E"*.

## ***III. Montosco, Inc.***

### **A. Description of Business**

#### **1. Business Development**

a. Form and Year of Organization

**Montosco, Inc. (“Montosco”)** is a domestic corporation registered with the SEC on August 13, 2008. It is not publicly listed.

b. Any Bankruptcy, Receivership or Similar Proceedings

None.

c. Any Material Reclassification, merger, Consolidation or Purchase or Sale of a significant amount of assets (not ordinary)

None.

2. Business of Issuer

a. Description of the Business of Registrant and its Significant Subsidiaries

Montosco is not a registrant or a publicly listed company/registrant. It is a domestic corporation registered with the SEC on August 13, 2008, and was incorporated for the primary purpose of trading goods on wholesale and retail basis.

Montosco is the lead company among the three (3) liquor companies subject of the share swap, having in its portfolio "Alfonso" the number one imported brand in the country by volume and value. It drives the liquor segment's revenue and bottomline. Completing Montosco's portfolio is Diageo, the leading spirits company in the world, having Johnnie Walker as its leading brand. A unique trading relationship with Diageo has been established, including exclusivity on key brands.

Montosco distributes its products thru its sales team to the local distributors. It also sells to supermarkets, wholesalers and on-premises outlets namely hotels, restaurants, bar and resorts.

The company does not have any transactions with and is not dependent on related parties.

b. Additional requirements as to certain Issues or Issuer

Montosco is not involved in debt issues and is not an investment company.

B. Description of Property

Based on its 2020 audited financial statements, Montosco booked “Property and equipment – net” at PhP19.065 million, and it has a “Right-of-use assets” at PhP100.135 million. In FY 2019, the “Property and equipment – net” has ending balance of PhP9.412 million and “Right-of-use assets” of PhP26.735 million.

Most of the real properties of Montosco is under lease agreement with another entity under common control. The lease covers office space and warehouse of up to 8,000 square meters, more or less, and terms range from three (3) years to five (5) years with an annual escalation rate of up to 5%.

Also, the company does not intend to acquire any property in the next twelve (12) months.

### C. Legal Proceedings

There is no material pending legal (civil, criminal, administrative or arbitration) proceeding in which the company is involved or any of its property is a subject of.

#### Other information:

#### A. Market Price of and Dividends

##### 1. Market Information

##### a. Identification of the Principal Market or Markets where the Registrant's Common Equity is Traded

###### (1) State the name of the Exchange.

Not applicable since Montosco is not publicly listed.

###### (2) High and Low Sales Prices for Each Quarter within the last two (2) fiscal years and any subsequent interim period for which Financial Statements.

Not applicable since Montosco is not publicly listed.

##### 2. Holders

##### a. Number of Holders of Each Class of Common Security

One (1) holder of common shares since it is fully owned by Cosco.

##### b. Effects in the company before and after the Share Swap Transaction:

It shall be fully owned by Da Vinci Capital Holdings, Inc.

##### 3. Dividends

Montosco, Inc. declared a cash dividend amounting to PhP 200 million on December 18, 2020.

##### 4. Recent Sales of Unregistered or Exempt Securities including Recent Issuance of Securities Constituting an Exempt Transaction

There were no sales of unregistered securities within the fiscal year covered by this report.

The 2020 Financial Statements of Montosco Inc. is attached as *Annex "G"* and all other relevant information.

## Management's Discussion and Analysis of Operations

Please see attached *Annex "A-3"* for the 3-year discussion and analysis of Montosco's results of operations, financial condition and certain trends, risks and uncertainties that may affect its business.

### (A) Directors and Executive/Key Officers

Board of Directors	
Jannelle O. Uy	Chairman of the Board
Pamela Justine P. Co	Director
Camille Clarisse P. Co	Director
Lucio L. Co	Director
Susan P. Co	Director

Officers	
Jannelle O. Uy	President
Maricel B. Joyag	Vice President
Evelyn B. Binanitan	Corporate Secretary
Maria Crisanta A. Relos	Treasurer

### (B) List of Stockholders

Name of Stockholder	Number of Shares	Amount	% of Ownership	Amount Paid
Cosco Capital, Inc.	7,499,994	749,999,400.00	100.00%	749,999,400.00
Lucio L. Co	1	100.00	0.00%	100.00
Susan P. Co	1	100.00	0.00%	100.00
Jannelle O. Uy	1	100.00	0.00%	100.00
Pamela Justine P. Co	1	100.00	0.00%	100.00
Camille Clarisse P. Co	1	100.00	0.00%	100.00
Katrina Marie P. Co	1	100.00	0.00%	100.00
Total	7,500,000	750,000,000.00	100.00%	750,000,000.00

### (C) Significant Employees

There is no person in the company who is not an executive or key officer but who is expected to make a significant contribution to the operation of the business.

#### **(D) Family Relationships**

None of the directors/independent directors and executive officers of the company has any family relationships up to the fourth civil degree by consanguinity or affinity, except for Mr. Lucio L. Co who is related by consanguinity to Ms. Camille Clarisse P. Co and to Mrs. Susan P. Co, wife of Mr. Co.

#### **(E) Involvement in Certain Legal Proceedings**

As of December 31, 2020, and the past five years, the company has no director, executive officer or principal officer who is involved in any of the following:

- (1) Bankruptcy case.
- (2) Convicted by final judgment of any criminal proceeding, domestic or foreign.
- (3) The subject of any order, judgment, or decree of any court of competent jurisdiction permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities, or banking activities.
- (4) Being found by a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body or a domestic or foreign exchange or other organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended or vacated.

For discussion of related party transactions, please refer to the 2020 Audited Financial Statements of Montosco, Inc. hereto attached as *Annex "G"*.

#### **IV. Meritus Prime Distributions, Inc.**

##### A. Description of Business

##### 1. Business Development

##### a. Form and Year of Organization

Meritus Prime Distributions, Inc. ("Meritus") is a domestic corporation registered with the SEC on February 17, 2010.

##### b. Any Bankruptcy, Receivership or Similar Proceedings

None.

##### c. Any Material Reclassification, merger, Consolidation or Purchase or Sale of a significant amount of assets (not ordinary)



None.

## 2. Business of Issuer

### a. Description of the Business of Registrant and its Significant Subsidiaries

Meritus is not a registrant or a publicly listed company/registrant. It is a domestic corporation registered with the SEC on February 17, 2010, and was incorporated for the primary purpose of buying, selling, exporting, manufacturing, bottling and distribution of all kinds of wines, liquors, beers and other alcoholic and non-alcoholic beverages, etc.

Meritus prides itself by carrying the number one bourbon whisky brand in the world, "Jim Beam" and its strong relationship with Beam Suntory group - the third-largest spirits producer in the world. It also represents the portfolio of W. Grants where Glenfiddich, the leading single malt whisky in the world, is among its key brands. Rounding the list for Meritus are Roku and Hendricks- the hottest craft gin brands in the market.

Meritus distributes its products thru its sales team to the local distributors. It also sells to supermarkets, wholesalers and on-premises outlets namely hotels, restaurants, bar and resorts.

The company does not have any transactions with and is not dependent on related parties.

### b. Additional requirements as to certain Issues or Issuer

Meritus is not involved in debt issues and is not an investment company.

## B. Description of Property

Based on its 2020 Audited Financial Statements, Meritus booked "Property and equipment – net" at PhP0.495 million, and it has a "Right-of-use assets" at PhP0 million. In FY 2019, the "Property and equipment – net" has ending balance of PhP0.924 million and "Right-of-use assets" of PhP2.458 million.

Most of the real properties of Meritus is under lease agreement with another entity under common control. The lease covers warehouses in terms that range from three (3) years to five (5) years.

Also, the company does not intend to acquire any property in the next twelve (12) months.

## C. Legal Proceedings

There is no material pending legal (civil, criminal, administrative or arbitration) proceeding in which the company is involved or any of its property is a subject of.

Other information:

A. Market Price of and Dividends

1. Market Information

a. Identification of the Principal Market or Markets where the Registrant's Common Equity is Traded

(1) State the name of the Exchange.

Not applicable since Meritus is not publicly listed.

(2) High and Low Sales Prices for Each Quarter within the last two (2) fiscal years and any subsequent interim period for which Financial Statements.

Not applicable since Meritus is not publicly listed.

2. Holders

a. Number of Holders of Each Class of Common Security

One (1) holder of common shares since it is fully owned by Cosco.

b. Effects in the company before and after the Share Swap Transaction:

It shall be fully owned by Da Vinci Capital Holdings, Inc..

3. Dividends

There were no dividends declared for the year ended December 31, 2020.

4. Recent Sales of Unregistered or Exempt Securities including Recent Issuance of Securities Constituting an Exempt Transaction

There were no sales of unregistered securities within the fiscal year covered by this report.

The 2020 Financial Statements of Meritus is attached as *Annex "H"* and all other relevant information.

**Management's Discussion and Analysis of Operations**

Please see attached *Annex "A-4"* for the 3-year discussion and analysis of Meritus Prime's results of operations, financial condition and certain trends, risks and uncertainties that may affect its business.

## (A) Directors and Executive/Key Officers

<b>Board of Directors</b>	
Camille Clarisse P. Co	Chairman of the Board
Pamela Justine P. Co	Director
Ferdinand Vincent P. Co.	Director
Susan P. Co	Director
Lucio L. Co	Director

<b>Officers</b>	
Camille Clarisse P. Co	President
Maridel Behagan	Vice President
Evelyn B. Binanitan	Corporate Secretary
Catherine W. Cai	Treasurer

Mr. Lucio L. Co is the Chairman of Cosco's Board, and a Director of both Meritus and Da Vinci. He owns 33% of Cosco's outstanding capital stock and has nominal shares in Meritus and is the ultimate beneficial owner of Invescap Incorporated which is the principal stockholder of Da Vinci.

Ms. Susan P. Co is the Vice Chairman of Cosco's Board and owns 24.73% of Cosco's outstanding capital stock. She is also a Director of Meritus and owns nominal share.

Ms. Camille Clarisse P. Co is a Director of Da Vinci, as well as the Chairman of the Board and President of Meritus. She owns 1.48% of Cosco's outstanding capital stock.

Lastly, Atty. Bienvenido E. Laguesma is an Independent Director of both Cosco and Da Vinci.

## (B) List of Stockholders

Name of Stockholder	Number of Shares	Amount	% of Ownership	Amount Paid
Cosco Capital, Inc.	7,499,994	749,999,400.00	100.00%	749,999,400.00
Lucio L. Co	1	100.00	0.00%	100.00
Susan P. Co	1	100.00	0.00%	100.00
Ferdinand Vincent P. Co	1	100.00	0.00%	100.00
Pamela Justine P. Co	1	100.00	0.00%	100.00
Camille Clarisse P. Co	1	100.00	0.00%	100.00
Katrina Marie P. Co	1	100.00	0.00%	100.00
Total	7,500,000	750,000,000.00	100.00%	750,000,000.00

### **(C) Significant Employees**

There is no person in the company who is not an executive or key officer but who is expected to make a significant contribution to the operation of the business.

### **(D) Family Relationships**

None of the directors/independent directors and executive officers of the company has any family relationships up to the fourth civil degree by consanguinity or affinity, except for Mr. Lucio L. Co, who is married to Ms. Susan P. Co, and both of them are related by consanguinity to Ms. Camille Clarisse P. Co.

### **(E) Involvement in Certain Legal Proceedings**

As of December 31, 2020, and the past five years, the company has no director, executive officer or principal officer who is involved in any of the following:

- (1) Bankruptcy case.
- (2) Convicted by final judgment of any criminal proceeding, domestic or foreign.
- (3) The subject of any order, judgment, or decree of any court of competent jurisdiction permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities, or banking activities.
- (4) Being found by a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body or a domestic or foreign exchange or other organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended or vacated.

For discussion of related party transactions, please refer to the 2020 Audited Financial Statements of Meritus Prime Distributions, Inc. hereto attached as *Annex "H"*.

## **V. Premier Wine and Spirits, Inc.**

### **A. Description of Business**

#### **1. Business Development**

##### **a. Form and Year of Organization**

Premier Wine and Spirits, Inc. (Premier) is a domestic corporation registered with the SEC on June 19, 1996.

##### **b. Any Bankruptcy, Receivership or Similar Proceedings**

None.

- c. Any Material Reclassification, merger, Consolidation or Purchase or Sale of a significant amount of assets (not ordinary)

None.

## 2. Business of Issuer

### a. Description of the Business of Registrant and its Significant Subsidiaries

Premier is not a registrant or a publicly listed company/registrant. It is a domestic corporation registered with the SEC on June 19, 1996, and was incorporated for the primary purpose of buying, selling, distributing and marketing at wholesale all kinds of goods, commodities and merchandise.

Premier's portfolio has a good balance of spirits, wines as well as specialty beverages. Its key distribution arrangements are with Treasury Wine Estates, the biggest publicly listed wine company in the world, Proximo Spirits of USA, Gruppo Campari of Italy, Jinro of South Korea, among others.

Premier and Pernod Ricard, the second largest spirits company in the world, formed a joint venture partnership, establishing Pernod Ricard Philippines, Inc., to be the marketing and distribution arm of Pernod brands in this market.

Amongst Premier's key brands are Jose Cuervo, the world's leading tequila; Jinro, the top spirits brand in the world; Penfolds, world's most admired wine brand; RedBull, world's number 1 energy drink; and Perrier, the leading sparkling water in the world.

Premier Wine distributes its products thru its sales team to the local distributors. It also sells to supermarkets, wholesalers and on-premises outlets namely hotels, restaurants, bar and resorts.

The company does not have any transactions with and is not dependent on related parties.

### b. Additional requirements as to certain Issues or Issuer

Premier is not involved in debt issues and is not an investment company.

## B. Description of Property

Based on its 2020 audited financial statements, Premier booked "Property and equipment – net" at PhP12.653 million, and it has a "Right-of-use assets" at PhP85.718 million. In FY 2019, the "Property and equipment – net" has ending balance of PhP6.541 million and "Right-of-use assets" of PhP4.851 million.

Most of the real properties of Premier Wine is under lease agreement with another entity under common control and another warehouse with a third-party lessor. The lease term ranges from three (3) years to five (5) years with an annual escalation rate of up to 5%.

Also, the company does not intend to acquire any property in the next twelve (12) months.

### C. Legal Proceedings

There is no material pending legal (civil, criminal, administrative or arbitration) proceeding in which the company is involved or any of its property is a subject of.

#### Other information:

### A. Market Price of and Dividends

#### 1. Market Information

##### a. Identification of the Principal Market or Markets where the Registrant's Common Equity is Traded

###### (1) State the name of the Exchange.

Not applicable since Premier is not publicly listed.

###### (2) High and Low Sales Prices for Each Quarter within the last two (2) fiscal years and any subsequent interim period for which Financial Statements.

Not applicable since Premier is not publicly listed.

#### 2. Holders

##### a. Number of Holders of Each Class of Common Security

One (1) holder of common shares since it is fully owned by Cosco.

##### b. Effects in the company before and after the Share Swap Transaction:

It shall be fully owned by Da Vinci Capital Holdings, Inc..

#### 3. Dividends

There were no dividends declared for the year ended December 31, 2020.

#### 4. Recent Sales of Unregistered or Exempt Securities including Recent Issuance of Securities Constituting an Exempt Transaction

There were no sales of unregistered securities within the fiscal year covered by this report.

The 2020 Financial Statements of Premier Wine is attached as *Annex "I"* and all other relevant information.

## Management's Discussion and Analysis of Operations

Please see attached *Annex "A-5"* for the 3-year discussion and analysis of Premier Wine's results of operations, financial condition and certain trends, risks and uncertainties that may affect its business.

### (A) Directors and Executive/Key Officers

<b>Board of Directors</b>	
Jose Paulino Santamarina	Chairman of the Board
Robin Derrick Co Chua	Director
Susan P. Co	Director
Ferdinand Vincent P. Co	Director
Pamela Justine P. Co	Director
Camille Clarisse P. Co	Director
Katrina Marie P. Co	Director

<b>Officers</b>	
Jose Paulino Santamarina	President
Evelyn B. Binanitan	Treasurer
Maricel B. Joyag	Corporate Secretary

Mr. Jose Paulino Santamarina is a Director of Da Vinci and at the same time the Chairman of the Board and President of Premier, owning nominal shares in the said companies.

Meanwhile, Ms. Susan P. Co is the Vice Chairman of Cosco's Board and owns 24.73% of Cosco's outstanding capital stock. She is also a Director of Premier and owns nominal share.

Mr. Robin Derrick Co Chua Co is a Director of both Da Vinci and Premier, owning nominal shares in the said companies.

Finally, Ms. Camille Clarisse P. Co is a Director of both Da Vinci and Premier, with nominal shareholding. She owns 1.48% of Cosco's outstanding capital stock.

### (B) List of Stockholders

Name of Stockholder	Number of Shares	Amount	% of Ownership	Amount Paid
Cosco Capital, Inc.	1,499,993	149,999,300.00	100.00%	149,999,300.00
Jose Paulino Santamarina	1	100.00	0.00%	100.00
Robin Derrick Co Chua	1	100.00	0.00%	100.00
Susan P. Co	1	100.00	0.00%	100.00

Ferdinand Vincent P. Co	1	100.00	0.00%	100.00
Pamela Justine P. Co	1	100.00	0.00%	100.00
Camille Clarisse P. Co	1	100.00	0.00%	100.00
Katrina Marie P. Co	1	100.00	0.00%	100.00
Total	1,500,000	150,000,000.00	100.00%	150,000,000.00

### **(C) Significant Employees**

There is no person in the company who is not an executive or key officer but who is expected to make a significant contribution to the operation of the business.

### **(D) Family Relationships**

None of the directors/independent directors and executive officers of the company, or nominees for election to such positions has any family relationships up to the fourth civil degree by consanguinity or affinity, except for Ms. Susan P. Co, Mr. Ferdinand Vincent P. Co, Ms. Pamela Justine P. Co, Ms. Camille Clarisse P. Co and Katrina Marie P. Co, who are all related by consanguinity.

### **(E) Involvement in Certain Legal Proceedings**

As of December 31, 2020, and the past five years, the company has no director, executive officer or principal officer who is involved in any of the following:

- (1) Bankruptcy case.
- (2) Convicted by final judgment of any criminal proceeding, domestic or foreign.
- (3) The subject of any order, judgment, or decree of any court of competent jurisdiction permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities, or banking activities.
- (4) Being found by a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body or a domestic or foreign exchange or other organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended or vacated.

For discussion of related party transactions, please refer to the 2020 Audited Financial Statements of Premier Wine and Spirits, Inc. hereto attached as *Annex "I"*

### **Item 13. Acquisition or Disposition of Property**

No action is to be taken with respect to the acquisition or disposition of any property during the meeting.



#### **Item 14. Restatement of Accounts**

No action is to be taken up with respect to the restatement of any asset, capital, or surplus account of the company during the meeting.

#### **Item 15. Action with Respect to Reports**

The stockholders will be asked to approve or ratify during the Annual Stockholders Meeting the following matters:

- a. Approval of the Minutes of the Previous Meeting held on November 20, 2020
- b. Annual Report of Management and Approval of the Audited Financial Statements for 2020
- c. Ratification of Acts of the Board of Directors and Management since the Last Annual Meeting of Stockholders
- d. Approval of Amendment of the Company's Articles of Incorporation and By-Laws
  - Amendment of Corporate Name
  - Amendment of Primary and Secondary Purposes
  - Amendment of Corporate term
  - Change in Par Value of Common shares
  - Increase of Authorized Capital Stock, and Delegation to the Company's Board of Directors of the authority to determine the manner of subscription and the subscriber/s of the increase in authorized capital stock.
- e. Top-Up Plan for the Fractional Shares Resulting from the Proposed Increase in Authorized Capital stock
- f. Ratification of Rescission of Subscription Contract between Da Vinci Capital Holdings, Inc. and Invescap Incorporated
- g. Issuance of up to 11,250,000,000 Common Shares of Da Vinci Capital Holdings, Inc. pursuant to the Share Swap Transaction with Cosco Capital Inc.
- h. Waiver of Requirement to Conduct a Rights Offering on the Issuance of up to 11,250,000,000 Da Vinci Common Shares to Cosco Capital, Inc. for the Share Swap Transaction
- i. Issuance of up to 3,000,000,000 Da Vinci Common Shares pursuant to DAVIN's Follow-on Public Offering ("FOO") Program

- j. Election of Directors Including Independent Directors
- k. Re-Appointment of External Auditor and Fixing its Remuneration
- l. Other Matters

There are no other items submitted for approval or consideration, other than those required in the ordinary course of business that requires approval or presentation to the shareholders of the Company.

#### **Item 16. Matters Not Required to be Submitted**

No action is to be taken up with respect to any matter which is not required to be submitted to a vote of security holders.

#### **Item 17. Amendment of Charter, Bylaws or Other Documents**

On April 29, 2021, the Board of Directors approved the proposed amendments to the company's Articles of Incorporation and By-laws, in order to reflect the following changes:

- (a) To change the corporate name to "The Keepers Holdings, Inc.";
- (b) To reflect the revised and additional primary and secondary purposes of the company, as follows:

##### **PRIMARY PURPOSE**

To invest in, purchase, or otherwise acquire and own, hold, use, sell, assign, transfer, mortgage, pledge, exchange, or otherwise dispose of real and personal property of every kind and description, including shares of stock, bonds, debentures, notes, evidences of indebtedness, and other securities or obligations of any corporation or corporations, association or associations, domestic or foreign, for whatever lawful purpose or purposes the same may have been organized and to pay therefore in money or by exchanging shares of stock of this corporation or any other corporation, while the owner or holder of any such real or personal property, stocks, bonds, debentures, contracts, or obligations, to receive, collect and dispose of the interest, dividends, and income arising from such property; and to possess and exercise in respect thereof all the rights, powers and privileges of ownership, including all voting powers of any stock so owned; to carry on and manage the general business of any company.

##### **SECONDARY PURPOSES**

- (a) To engage in the management, supervision, or control of business enterprises of all kinds, the operations and transactions of any company or undertaking and to manage and administer lands, buildings, whether real or

personal, and in general, to act as agent, attorney-in-fact, or in any representative capacity as may be permitted by law, except the management of funds, securities, portfolio and other similar assets of any firm or entity.

(b) To own, acquire, construct, maintain and operate plants, factories, and buildings that are necessary for the production and manufacturing of all kinds of goods, wares, and merchandise of all kinds and descriptions within the commerce of men.

(c) To hold, purchase, acquire, or be interested in the shares or capital stocks, bonds, or other evidence of debts issued or created by any other corporation, partnership or Company, domestic or foreign, governmental or otherwise, and as the owner and holder of any such shares of stock, to exercise all the rights and privileges of ownership, including the right to vote thereon and exercise all the rights to pertaining thereto.

(d) To act as joint or solidary obligor, mortgagor, guarantor, or surety for principal and accessory security obligations incurred or to be incurred by subsidiaries, affiliates, sister companies, and other corporations.

AND IN FURTHERANCE OF THE FOREGOING CORPORATE PURPOSES:

(1) To enter into, make, and perform contracts of every kind for any lawful purpose with any person, firm, corporation, national government, or any of its instrumentalities.

(2) To purchase, hold, convey, sell, lease, rent, mortgage, encumber and otherwise deal with real property, improved or unimproved, as the purpose for which the corporation is formed may permit.

(3) To borrow money or create indebtedness, bonded or otherwise; to secure the payment of any such obligations by a mortgage, pledge or agreement as to all or any part of properties, real and personal, of the corporation; to provide that any such obligations shall be convertible into or exchangeable for stocks of the corporation upon such terms permitted by law as the Board of directors shall determine.

(4) To apply for, register, produce, purchase, exchange, lease, acquire, own, operate, or negotiate for, licenses or other rights in respect of, sale, transfer, grant or licenses, and rights in respect of, manufacture under, introduce, sell, assign, collect the royalties on, mortgage, pledge, create a lien upon, or otherwise dispose of, deal in, and turn to account, letters patent, patent rights, inventions, discoveries, machines, licenses, processes, data and formulate any kinds pursuant to the laws of the Philippines, or any country whatsoever, and with a view to the working and development of the same.

(5) To finance, enter into, or perform contracts and agreements in connection or furtherance of any of the foregoing.

(6) To promote any company or companies to acquire all or any part of the stockholdings, properties, and liabilities of said company, as may be

permitted by law, or for any other purpose which may seem directly or indirectly calculated to benefit the Company under law.

(7) Without in any way limiting the powers of the Company, it shall have the power to make and perform contracts of any kind and description with any person, firm, or corporation; to have one or more offices within the Philippines and abroad; and to conduct its business and exercise its powers, authorities, and privileges granted by the laws of the Philippines to corporations organized under said laws and, in particular, unto corporations of similar nature and kind.

(8) Generally, to do all such acts, things and to transact all business as may be directly or indirectly incidental to or conducive to the attainment of the above objects or any of them, respectively.

- (c) To amend the corporate existence to perpetual;
- (d) To change the par value of common shares to PhP 0.10 per share;
- (e) To convert the authorized preferred shares to common shares; and
- (f) To increase the authorized capital stock of the company to PhP2 billion divided into Twenty (20) billion common shares.

Pursuant to Sections 15 and 37 of the Revised Corporation Code, the amendment of the articles of incorporation and increase of the company's authorized capital stock require the approval by the stockholders representing at least two thirds (2/3) of the outstanding capital stock of the company and by the Philippine Securities and Exchange Commission ("SEC").

The Board also approved the proposal to delegate to it the authority to determine the manner of subscription and the subscriber/s of the increase in authorized capital stock, subject to the approval of the stockholders, including majority of the minority of the stockholders.

The company proposed the aforementioned amendments for the purpose of organizing the company in accordance with the intended/contemplated business and operations.

## **Item 18. Other Proposed Action**

### *Follow-on Public Offering*

The company intends to conduct a follow-on public offering of its shares as soon as possible after the completion of the transaction described under **Item 9** above to comply with the minimum public ownership requirement under SEC and PSE rules.

### Top-up Plan

During the November 20, 2020 annual stockholders' meeting, DAVIN's stockholders approved the increase and the amendment of the articles of incorporation to reflect the increase in the authorized capital stock and par value, among others. In particular, the authorized capital stock was approved to be increased from PhP327.6 million to PhP2 billion, while the par value per common share was approved to be increased from P0.023 per share to P0.10 per share.

Once regulatory approval is obtained, the said increase in the par value per common share will result in a corresponding decrease in the total number of common shares of DAVIN and certain stockholders may hold only a fraction of a share (the "Reverse Stock Split").

In order to restore the fractional shares to full shares, Cosco Capital, Inc. has offered to pay for the difference between the par value of one (1) full share and the value of a fractional share. For avoidance of doubt, the Top-Up Plan offer by Cosco Capital, Inc. is limited only to fractional shares resulting from the Reverse Stock Split.

Presented below are the matters for consideration and approval by the stockholders:

- (a) the offer by Cosco Capital, Inc. to settle, on behalf of the affected stockholders holding fractional shares, the difference between the par value of one (1) full share and the value of a fractional share;
- (b) the delegation of authority to the board of directors and/or management to formulate necessary guidelines for the implementation of the Top-up Plan including the terms and conditions of the transaction documents, as well as the issuance of the corresponding number of common shares out of the company's authorized capital stock; and
- (c) authority to apply for listing with the Philippine Stock Exchange all the common shares to be issued by DAVIN pursuant to the Top-up Plan.

### **Item 19. Voting Procedures**

- (a) The affirmative vote of at least majority of the shares present or represented in the meeting shall be required to approve all actions submitted to the vote of stockholders.
- (b) The stockholders may cast their votes by sending proxies, or *in absentia* by any means of remote communication. The stockholders entitled to vote shall have the right to vote the number of shares of stock standing in their own names in the stock books of the company as of record date.

For election of directors, a stockholder may: (a) vote such number of shares for as many as there are directors to be elected; (b) cumulate said shares and give one (1) candidate as many votes as the number of directors to be elected multiplied by number of shares owned; or (c) distribute them on the same principle among as many candidates as may be seen fit. Provided, that the total number of votes cast shall not exceed the number of

shares owned by the stockholders as shown in the books of the company multiplied by the whole number directors to be elected.

All votes of the stockholders must be submitted by email to corporate.governance.davinci@gmail.com on or before May 24, 2021.

Please refer to **Annex “B” (Guidelines in Participating via Remote Communication and Voting in Absentia)** for the detailed guidelines for participation via remote communication and the procedures for registration.

(c) The company will engage the services of its Stock Transfer Agent, BDO Stock Transfer Agent, to count and validate the votes of the stockholders.

**Part IV: (A) Corporate Governance**

(a) The Company has a Revised Manual on Corporate Governance.

(b) The Company has two independent directors.

(c) There has been no report of violation of Revised Manual on Corporate Governance since the board adopted it.

(d) The company conducts annual corporate governance training for all its directors and officers.

Year	Date	Time	Venue	Seminar Provider
2015	June 22	2:00–6:00 pm	Acacia Hotel, Alabang, Muntinlupa City	Center for Training and Development
2016	March 4	2:00–6:00 pm	Acacia Hotel, Alabang, Muntinlupa City	Center for Training and Development
2017	February 28	2:00–6:00 pm	Acacia Hotel, Alabang, Muntinlupa City	SGV & Company
2018	February 23	1:00-5:00 pm	Acacia Hotel, Alabang, Muntinlupa City	SGV & Company
2019	May 14	1:00-5:00 pm	Acacia Hotel, Alabang, Muntinlupa City	SGV & Company

## **(B) Compliance with Section 49 of the Revised Corporation Code**

In the conduct of 2021 annual meeting, the company shall endeavor to present the following items to the stockholders, either during the actual meeting or by presenting them to the Information Statements, for their information and guidance.

1. Minutes of the most recent regular meeting; the voting and vote tabulation procedures used in the previous meeting; the opportunity given to stockholders to ask questions and a record of questions asked and answers given; the matters discussed and resolutions reached; record of voting results for each agenda item; list of directors, officers and stockholders who attended the meeting.

2. Material information on the current stockholders and their voting rights.

3. Detailed, descriptive and balanced and comprehensible assessment of the company's performance.

4. Annual Financial Statement for the preceding year.

5. Dividend Policy of the company and the fact of payment of dividends.

6. Qualifications, relevant experience, length of service, and trainings and continuing education of directors.

7. Attendance Report of the directors.

8. Appraisal and performance reports for the board of directors.

9. Compensation Report of the directors.

10. Director disclosure on self-dealings and related party transactions.

11. Profile of directors nominated for re-election.

In the previous stockholders' meeting held on November 20, 2020, directors, officers, and stockholders representing 956,213,343 common shares or 85% of the outstanding capital stock attended the meeting via live stream and voted as follows:

	FOR	AGAINST	ABSTAIN	TOTAL VOTES
1.a. Approval of change in name of the Company to "The Keepers Holdings, Inc."	956,213,343	0	0	956,213,343
1.b. Approval of amendment of primary and secondary purposes of the Company	956,213,343	0	0	956,213,343
1.c. Approval of amendment of corporate term from 50 years to perpetual	956,213,343	0	0	956,213,343
1.d. Approval of increase of authorized capital stock, which includes change in par value of common shares and conversion of authorized preferred shares to common shares	956,213,343	0	0	956,213,343
1.e. Approval of the delegation to the Board of Directors of the authority to determine the manner of subscription and the subscriber/s of the increase in authorized capital stock	956,213,343	0	0	956,213,343
2. 1. Election of Mr. Lucio L. Co	956,213,343	0	0	956,213,343
2.2. Election of Ms. Camille Clarisse P. Co	956,213,343	0	0	956,213,343
2.3. Election of Mr. Jose Paulino Santamarina	956,213,343	0	0	956,213,343
2.4. Election of Mr. Robin Derrick C. Chua	956,213,343	0	0	956,213,343
2.5. Election of Ms. Jannelle O. Uy	956,213,343	0	0	956,213,343
2.6. Election of Mr. Enrico S. Cruz - ID	956,213,343	0	0	956,213,343
2.7. Election of Atty. Bienvenido E. Laguesma - ID	956,213,343	0	0	956,213,343
3. Appointment of R.G. Manabat & Co., as the company's External Auditor for the calendar year 2020	956,213,343	0	0	956,213,343
3.b. Approval of the Audited Financial Statements for the year 2019	956,213,343	0	0	956,213,343

After all the agenda items, the Chairman of the meeting proceeded to the Open Forum to allow any stockholder to ask the Board or the management any question. However, no stockholder raised a question.



## UNDERTAKING AND SIGNATURE PAGE

The company will post and make available for download the full version of this SEC Form 20-IS (Definitive Information Statement), together with its annexes including its 2020 Audited Financial Statements in the company's website at [www.davincicapital.com.ph](http://www.davincicapital.com.ph) upon its approval by the Securities and Exchange Commission.

Upon the written request of a stockholder, the company will provide, without charge, hard copies of the SEC Form 20-IS (Definitive Information Statement) and other reports duly filed with the Securities and Exchange Commission. The stockholder may be charged a reasonable cost for photocopying the exhibits.

All requests may be sent to the following address:

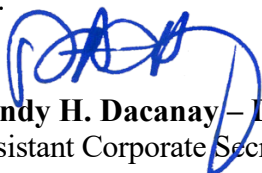
**DA VINCI CAPITAL HOLDINGS, INC.**  
No. 900 Romualdez St.,  
Paco, Manila

Attention: **BABY GERLIE I. SACRO**  
Corporate Secretary

After reasonable inquiry and to the best of my knowledge and belief, we hereby certify that the information set forth in this report is true, complete and correct. This Amended Definitive Information Statement is signed in the City of Manila, Philippines on May 12, 2021.

**DA VINCI CAPITAL HOLDINGS, INC.**

By:



**Candy H. Dacanay – Datuon**  
Assistant Corporate Secretary

# COVER SHEET

for

## AUDITED FINANCIAL STATEMENTS

SEC Registration Number

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### COMPANY NAME

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H	O	L	D	I	N	G	S	,		I	N	C	.																										

### PRINCIPAL OFFICE (No. / Street / Barangay / City / Town / Province)

N	o	.	9	0	0		R	o	m	u	a	l	d	e	z		S	t	r	e	e	t																			
P	a	c	o	,		M	a	n	i	l	a																														

<b>Form Type</b>	<b>Department requiring the report</b>	<b>Secondary License Type, If Applicable</b>
A A F S	SEC	

### COMPANY INFORMATION

<b>Company's email Address</b>	<b>Company's Telephone Number/s</b>	<b>Mobile Number</b>
hotline@mariwasa.com	(02) 522-8801 to 04	N/A
<b>No. of Stockholders</b>	<b>Annual Meeting (Month / Day)</b>	<b>Fiscal Year (Month / Day)</b>
470	Any Day of May	December 31

### CONTACT PERSON INFORMATION

The designated contact person **MUST** be an Officer of the Corporation

<b>Name of Contact Person</b>	<b>Email Address</b>	<b>Telephone Number/s</b>	<b>Mobile Number</b>
Atty. Candy H. Dacanay - Datuon	candy.dacanay@gmail.com	522-8801 to 04	N/A

### CONTACT PERSON'S ADDRESS

No. 900 Romualdez Street, Paco, Manila

**Note 1:** In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

**2:** All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.

# DA VINCI CAPITAL HOLDINGS, INC.

**FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**  
**(With Comparative Figures for 2018)**

With Independent Auditors' Report

**DA VINCI CAPITAL HOLDINGS, INC.**  
900 Romualdez St., Paco, Manila

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR FINANCIAL STATEMENTS**

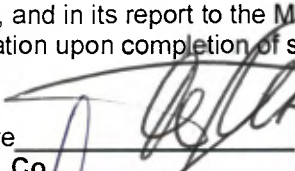
The Management of **Da Vinci Capital Holdings, Inc.** (the "Company") is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended **December 31, 2020 and 2019**, in accordance with the prescribed financial reporting framework indicated therein, 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.

The Management is responsible for overseeing the Company's financial reporting process.

The Management reviews and approves the financial statements including the schedules attached therein.

R. G. Manabat & Co., the independent auditor appointed by the Management, has audited the financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the Management, has expressed its opinion on the fairness of presentation upon completion of such audit.

  
Signature  
**Lucio L. Co**  
Chairman of the Board/President

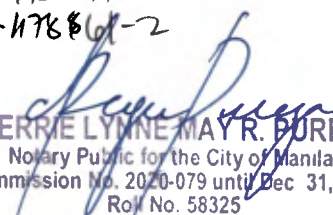
  
Signature  
**Ma. Editha D. Alcantara**  
Treasurer

Signed this APR 19 2021 day of April, 2021.

SUBSCRIBED AND SWORN to before me this APR 19 2021 day of April, 2021  
affiants exhibiting to me their respective identifications, as follows:

Name	Type of ID	ID No.	Date of Issue	Place of Issue
Lucio L. Co	TIN	108-995-971		
Ma. Editha D. Alcantara	SSS	33-178861-2		

Doc. No. 447  
Page No. 90  
Book No. 27  
Series of 2021

  
**CHERRIE LYNN MAY R. PUREZA**  
Notary Public for the City of Manila  
Commission No. 2020-079 until Dec 31, 2021  
Rol No. 58325  
IBP Lifetime Member No. 09093  
PTR No. 9824725 / 01-05-2021 / Mia.  
MCLE Compliance No. VI-0022488 / 04-16-19  
No. 900 Romualdez St., Paco, Manila



R.G. Manabat & Co.  
The KPMG Center, 9/F  
6787 Ayala Avenue, Makati City  
Philippines 1226  
Telephone +63 (2) 8885 7000  
Fax +63 (2) 8894 1985  
Internet www.home.kpmg/ph  
Email ph-inquiry@kpmg.com

## REPORT OF INDEPENDENT AUDITORS

The Stockholders and Board of Directors  
**Da Vinci Capital Holdings, Inc.**  
No. 900 Romualdez Street  
Paco, Manila

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of Da Vinci Capital Holdings, Inc. (the "Company"), which comprise the statements of financial position as at December 31, 2020 and 2019, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended 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 *Auditors' Responsibilities for the Audits 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 the 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.

Firm Regulatory Registration & Accreditation:

PRC-BOA Registration No. 0003, valid until November 21, 2023

SEC Accreditation No. 0003-SEC, Group A, valid for five (5) years covering the audit of 2020 to 2024 financial statements (2019 financial statements are covered by SEC Accreditation No. 0004-FR-SEC)

IC Accreditation No. 0003-IC, Group A, valid for five (5) years covering the audit of 2020 to 2024 financial statements (2019 financial statements are covered by IC Circular Letter (CL) No. 2019-39, Transition clause)

BSP Accreditation No. 0003-BSP, Group A, valid for five (5) years covering the audit of 2020 to 2024

financial statements (2019 financial statements are covered by BSP Monetary Board Resolution No. 2161, Transition clause)





### *Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. We have determined that there are no key audit matters to communicate in our report.

### *Other Information*

Management is responsible for the other information. The other information comprises the information included in the SEC Form 17-A and Annual Report for the year ended December 31, 2020 but does not include the financial statements and our auditors' report thereon. The SEC Form 17-A and Annual Report for the year ended December 31, 2020 are expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

### *Responsibilities of Management and the Board of Directors for the Financial Statements*

Management is responsible for the preparation and fair presentation of the 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.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

### *Auditors' Responsibilities for the Audits of the 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 auditors' 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, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



As part of an audit in accordance with PSA, we exercise professional judgment and maintain professional skepticism throughout the audits. 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 auditors' 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 auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- 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 the Board of Directors 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.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audits of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



**Report on the Supplementary Information Required Under Revenue Regulations  
No. 15-2010 of the Bureau of Internal Revenue**

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 17 to financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The engagement partner on the audits resulting in this independent auditors' report is Mr. Gregorio I. Sambrano, Jr.

**R.G. MANABAT & CO.**

*Gregorio I. Sambrano, Jr.*  
GREGORIO I. SAMBRANO, JR.  
Partner

CPA License No. 088825

SEC Accreditation No. 1548-AR-1, Group A, valid until December 17, 2021

Tax Identification No. 152-885-329

BIR Accreditation No. 08-001987-36-2018

Issued September 20, 2018; valid until September 19, 2021

PTR No. MKT 8533918

Issued January 4, 2021 at Makati City

April 16, 2021

Makati City, Metro Manila





**DA VINCI CAPITAL HOLDINGS, INC.**  
**STATEMENTS OF FINANCIAL POSITION**

		December 31	
	<i>Note</i>	2020	2019
<b>ASSETS</b>			
<b>Noncurrent Assets</b>			
Other noncurrent assets	5	P23,993,425	P23,897,634
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Accounts payable	6, 12, 13	P1,439,000	P1,439,000
Accrued expenses	7, 12, 13	656,676	562,576
Due to related parties	8, 12, 13	7,852,438	6,762,212
<b>Total Liabilities</b>	<b>14</b>	<b>9,948,114</b>	<b>8,763,788</b>
<b>Equity</b>			
Capital stock	9	25,875,000	25,875,000
Additional paid-in capital	9	46,033,000	46,033,000
Deficit		(57,862,689)	(56,774,154)
<b>Total Equity</b>	<b>14</b>	<b>14,045,311</b>	<b>15,133,846</b>
		<b>P23,993,425</b>	<b>P23,897,634</b>

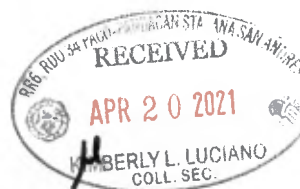
*See Notes to Financial Statements*



**DA VINCI CAPITAL HOLDINGS, INC.**  
**STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2020 and 2019**  
(With Comparative Figures for 2018)

	<i>Note</i>	2020	2019	2018
<b>OPERATING EXPENSES</b>				
PSE maintenance fee		P573,500	P731,250	P612,375
Retainer fee		207,200	130,800	130,800
Professional fee		150,000	150,000	71,300
Taxes and licenses		500	8,072	7,242
Penalty		-	-	102,000
Miscellaneous fee		157,335	27,899	24,054
<b>LOSSES</b>		<b>(P1,088,535)</b>	<b>(P1,048,021)</b>	<b>(P947,771)</b>
<b>LOSS PER SHARE</b>				
Basic loss per share	11	<b>(P0.0010)</b>	<b>(P0.0009)</b>	<b>(P0.0008)</b>

*See Notes to Financial Statements.*



**DA VINCI CAPITAL HOLDINGS, INC.**  
**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2020 and 2019**  
(With Comparative Figures for 2018)

	Capital Stock (Note 9)	Additional Paid- in Capital (Note 9)	Deficit	Total
Balances at December 31, 2017	P25,875,000	P46,033,000	(P54,778,362)	P17,129,638
Loss for the year	-	-	(947,771)	(947,771)
Balances at December 31, 2018	25,875,000	46,033,000	(55,726,133)	16,181,867
Loss for the year	-	-	(1,048,021)	(1,048,021)
Balances at December 31, 2019	25,875,000	46,033,000	(56,774,154)	15,133,846
Loss for the year	-	-	(1,088,535)	(1,088,535)
<b>Balances at December 31, 2020</b>	<b>P25,875,000</b>	<b>P46,033,000</b>	<b>(P57,862,689)</b>	<b>P14,045,311</b>

*See Notes to Financial Statements.*

**DA VINCI CAPITAL HOLDINGS, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2020 and 2019**  
(With Comparative Figures for 2018)

	<i>Note</i>	2020	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Losses before income tax/operating cash flows before changes in working capital		(P1,088,535)	(P1,048,021)	(P947,771)
Increase in other noncurrent assets		(95,791)	(101,607)	(79,027)
Increase (decrease) in accrued expenses		94,100	(4,700)	159,100
Net cash used in operating activities		(1,090,226)	(1,154,328)	(867,698)
<b>CASH FLOWS FROM A FINANCING ACTIVITY</b>				
Advances received from related parties	8, 15	1,090,226	1,154,328	867,698
<b>CASH AT THE END OF YEAR</b>		P -	P -	P -

*See Notes to Financial Statements.*

**DA VINCI CAPITAL HOLDINGS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
(With Comparative Figures for 2018)

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**1. Reporting Entity**

Da Vinci Capital Holdings, Inc, (the "Company") was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on November 5, 1963, and its shares are listed in the Philippine Stock Exchange (PSE) on September 3, 1991. On April 26, 2013, the SEC approved the amendments to certain sections of the Company's articles of incorporation which include the extension of its corporate life for another 50 years from November 5, 2013 to November 5, 2063. The principal activities of the Company are to purchase, subscribe for or otherwise acquire and own, hold, use, sell, assign, transfer, mortgage, pledge, exchange or otherwise dispose of real and personal property of every kind and description, including shares of stocks, bonds, debentures, notes, evidences of indebtedness and other securities, contracts or obligations of any corporation or corporations, association or associations, domestic or foreign, engage in, but not limited to, the business of real estate, manufacturing, trading and agribusiness, and to pay, in whole or in part, in cash or by exchanging therefor, stocks, bonds and other evidences of indebtedness or securities of this or any other corporation, and while the owner or holder of any such real or personal property, stocks, bonds, debentures, notes, evidences of indebtedness or other securities, contracts or obligations, to receive, collect and dispose of the interest, dividends and income arising from such property and to possess and exercise in respect therefor all the rights, powers and privileges of ownership, including all voting powers on any stock so owned, without however engaging in dealership in securities or in stock brokerage business, to the extent permitted by law, to aid, either by loans or by guaranty of securities or in any other manner, any corporation, domestic, or foreign, any share of stock, or any bond, debenture, evidence of indebtedness or other security whereof are held by this corporation or in which it shall have interest, and to do any act designed to protect, preserve, improve or enhance the value of any property at any time held or controlled by this corporation or in which it at that time may be interested.

The Company is 85% owned by Invescap Incorporated ("Invescap"), its Parent Company that is incorporated in the Philippines. The remaining 14.48% and 0.52% are owned by other domestic corporations and by Filipino individuals, respectively.

The Company's registered office address is located at No. 900 Romualdez Street, Paco, Manila.

Amendments to Articles of Incorporation

The Board of Directors (BOD) and Stockholders, representing at least two-thirds (2/3) of the outstanding capital stock of the Company, approved the amendments to certain sections of the Company's Articles of Incorporation on October 26, 2020 and November 20, 2020, respectively, which include the following:

*Change in the name of the Company*

The name of the said corporation shall be "The Keepers Holdings, Inc."

#### *Change in the Primary Purpose of the Company*

To invest in, purchase, or otherwise acquire and own, hold, use, sell, assign, transfer, mortgage, pledge, exchange, or otherwise dispose of real and personal property of every kind and description, including shares of stock, bonds, debentures, notes, evidences of indebtedness, and other securities or obligations of any corporation or corporations, association or associations, domestic or foreign, for whatever lawful purpose or purposes the same may have been organized and to pay therefore in money or by exchanging shares of stock of this corporation or any other corporation, while the owner or holder of any such real or personal property, stocks, bonds, debentures, contracts, or obligations, to receive, collect and dispose of the interest, dividends, and income arising from such property; and to possess and exercise in respect thereof all the rights, powers and privileges of ownership, including all voting powers of any stock so owned; to carry on and manage the general business of any company.

#### *Change in the Term of Existence of the Company*

The term of existence of the Corporation changed from fifty years to perpetual existence.

#### *Increase in Authorized Capital Stock of the Company*

The increase of the Company's authorized capital stock from Three Hundred Twenty Seven Million Six Hundred Thousand Pesos (P327,600,000) divided into One Billion Two Hundred Million (1,200,000,000) common shares with par value of Two and Three Tenths Centavos (P0.023) per share, and Three Billion (3,000,000,000) preferred shares with par value of Ten Centavos (Php0.10) per share to Two Billion Pesos (P2,000,000,000) divided into Twenty Billion (20,000,000,000) common shares at a par value of Ten Centavos (P0.10) per share.

As at April 16, 2021, the application for the proposed increase in the authorized capital stock, and the other amendments to the Articles of Incorporation is still under review by the SEC.

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## **2. Basis for the Preparation**

#### Statement of Compliance

The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). PFRS which are issued by the Philippine Financial Reporting Standards Council (FRSC), consist of PFRS, Philippine Accounting Standards (PAS), and Philippine Interpretations based on the International Financial Reporting Interpretations Committee (IFRIC) interpretations.

#### Basis of Measurement

The financial statements have been prepared using the historical cost basis of accounting.

#### Functional and Presentation Currency

The financial statements are measured using the currency of the primary economic environment in which the Company operates. The financial statements are presented in Philippine Peso, which is the Company's functional currency. All amounts are rounded to the nearest Peso except when otherwise indicated.

#### Authorization for Issuance of the Financial Statements

The financial statements of the Company as at and for the years ended December 31, 2020 and 2019 were approved and authorized for issue by the Company's Board of Directors (BOD) on April 16, 2021.

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### **3. Summary of Significant Accounting Policies**

The accounting policies set out below have been applied consistently to all years presented in these financial statements, except for the changes in accounting policies as explained below.

#### Adoption of Amendments to Standards

The Company has adopted the following amendments to standards starting January 1, 2020 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption of these amendments to standards did not have any significant impact on the Company's financial statements. These are as follows:

- *Amendments to References to Conceptual Framework in PFRS Standards* sets out amendments to PFRS Standards, their accompany documents and PFRS practice statements to reflect the issuance of the revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework). The 2018 Conceptual Framework includes a new chapter on measurement, guidance on reporting financial performance, improved definitions of an asset and a liability, and guidance supporting these definitions, and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Some Standards, their accompanying documents and PFRS practice statements contain references to, or quotations from, the International Accounting Standards Committee (IASC)'s Framework for the Preparation and Presentation of Financial Statements adopted by the International Accounting Standards Board (IASB) in 2001 or the Conceptual Framework for Financial Reporting issued in 2010. The amendments update some of those references and quotations so that they refer to the 2018 Conceptual Framework, and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

- *PAS 1, Presentation of Financial Statements, and PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Material (Amendments)* refine the definition of material. The amended definition of material states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify the definition of material and its application by:
  - (a) raising the threshold at which information becomes material by replacing the term "could influence" with "could reasonably be expected to influence";
  - (b) including the concept of "obscuring information" alongside the concept of "omitting" and "misstating" information in the definition;
  - (c) clarifying that the users to which the definition refers are the primary users of general purpose financial statements referred to in the Conceptual Framework;

(d) clarifying the explanatory paragraphs accompanying the definition; and

(e) aligning the wording of the definition of material across PFRS Standards and other publications.

The amendments are expected to help entities make better materiality judgements without substantively changing existing requirements.

#### Other Noncurrent Assets

##### *Excess Tax Credits*

Excess tax credits pertain to overpayment of income taxes in prior years. Excess tax credits are initially recognized based on the amount withheld by the payee in accordance with the local tax rules and regulations. These are accumulated and are reduced when deducted against income tax payable. Excess tax credits that are expected to be realized within 12 months after the reporting period are classified as current asset, otherwise, these are classified as other noncurrent asset.

##### *Input Taxes*

Input tax represents the value-added tax (VAT) due or paid on purchases of goods and services subjected to VAT that the Company can claim against any future liability to the Bureau of Internal Revenue (BIR) for output VAT from sale of goods and services subjected to VAT. The input tax can also be recovered as tax credit against future income tax liability of the Company upon approval of the BIR. Input tax is stated at net realizable value. An allowance is provided for any portion of the input tax that cannot be claimed against output tax or recovered as tax credit against future income tax liability. Input tax that are expected to be realized within 12 months after the reporting period are classified as current asset, otherwise, these are classified as other noncurrent asset.

#### Financial Instruments

##### *Date of Recognition*

The Company recognizes a financial asset or a financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument.

##### *Initial Recognition of Financial Instruments*

The financial assets or financial liabilities are recognized initially at fair value and subsequently carried at amortized cost, taking into account the impact of applying the effective interest rate method of amortization for any related premium, discount and any directly attributable transaction costs. These financial instruments are included in current assets or current liabilities if maturity is within twelve months from the reporting date. Otherwise, these are classified as noncurrent assets or liabilities.

As at December 31, 2020 and 2019, the Company's financial instruments consists of financial liabilities.

##### *Financial Liabilities*

*Classification, Subsequent Measurement and Gains and Losses.* Financial liabilities are classified as measured at amortized cost or financial liabilities at fair value through profit or loss (FVTPL). A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative, or it is designated as such on initial recognition.

As at December 31, 2020 and 2019, the financial liabilities of the Company are measured at amortized cost.



#### *Financial Liabilities at Amortized Cost*

This category pertains to financial liabilities that are not held for trading or designated as at FVTPL upon inception of the liability. These include liabilities arising from operations or borrowings. The financial liabilities are recognized initially at fair value and subsequently carried at amortized cost, taking into account the impact of applying the effective interest rate method of amortization for any related premium, discount and any directly attributable transaction costs. These financial liabilities are included in current liabilities if maturity is within twelve months from the reporting date. Otherwise, these are classified as noncurrent liabilities.

As at December 31, 2020 and 2019, the Company's financial liabilities measured at amortized cost include accounts payable, accrued expenses and due to related parties.

#### *Derecognition*

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired.

Where 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. The difference in the respective carrying amounts is recognized in profit or loss.

#### Capital Stock

Ordinary or common shares are classified as equity. The proceeds from the issuance of ordinary or common shares are presented in equity as capital stock to the extent of the par value of the issued and outstanding shares and any excess of the proceeds over the par value of the shares issued, less any incremental costs directly attributable to the issuance, net of tax, is presented in equity as additional paid-in capital.

#### Retained Earnings (Deficit)

Retained earnings (deficit) represent the cumulative balance of periodic net income or loss, dividend contributions, correction of prior year errors, effect of changes in accounting policy and other capital adjustments, if any.

#### Expense Recognition

Expenses are recognized when a decrease in future economic benefit related to a decrease in an asset or an increase in a liability that can be measured reliably has arisen. Expenses are recognized on the basis of a direct association between costs incurred and the earning of specific items of income; on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or immediately when an expenditure produces no future economic benefits or when, and to the extent that future economic benefits do not qualify, or cease to qualify, for recognition as an asset.

#### Related Parties and Related Party Transactions

Related party relationships exist when the party has the ability to control, directly or indirectly, through one or more intermediaries, or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting entity and its key management personnel, directors or stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely to the legal form. Related parties may be individual or corporate entities.

## Income Taxes

### *Current Income Tax*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used as basis to compute the amount are those that have been enacted or substantively enacted at the reporting date.

### *Deferred Income Tax*

Deferred income tax is provided, using the balance sheet liability method, 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 income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, and carryforward benefits of unused net operating loss carryover (NOLCO) to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences and the carryforward benefits of unused NOLCO can be utilized.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that sufficient future taxable profits will allow the deferred income tax assets to be recovered.

Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

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

### *VAT*

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

- where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of VAT included.

The net amount of tax recoverable from the taxation authority is included as part of "Other noncurrent assets" in the statement of financial position.

### Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of the provision to be reimbursed, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss, net of reimbursement. If the effect of the time value of money is material, provisions are discounted using the current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

### 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 position at the reporting date (adjusting events) are reflected in the financial statements. Events after the reporting date that are not adjusting events are disclosed in the notes to financial statements when material.

### Amended Standards Not Yet Adopted

A number of amendments to standards are effective for annual periods beginning after January 1, 2020. However, the Company has not early adopted the following relevant amended standards in preparing these financial statements. Unless otherwise stated, none of these are expected to have a significant impact on the Company's financial statements.

The Company plans to adopt the following relevant amended standards on the respective effective dates, as applicable.

*Effective January 1, 2021*

- PFRS 9, *Financial Instruments*, PAS 39, *Financial Instruments: Recognition and Measurement*, PFRS 7, *Financial Instruments: Disclosures*, PFRS 4, *Insurance Contracts*, and PFRS 16, *Leases - Interest Rate Benchmark Reform - Phase 2 (Amendments)* ensure that financial statements best reflect the economic effects of interest rate benchmark reforms, the Phase 2 amendments were issued and focus on the accounting once a new benchmark rate is in place. The reliefs allow companies not to recognize significant modification gains or losses on financial instruments and mitigate the risk of discontinuations of existing hedging relationships because of changes required by reforms. The amendments address issues that might affect financial reporting during the reform in the following key areas:
  - Practical expedient for particular changes to contractual cash flows. As a practical expedient, a company will account for a change in the basis for determining the contractual cash flows that is required by the reform by updating the effective interest rate of the financial instrument. If there are other changes to the basis for determining the contractual cash flows, then a company first applies the practical expedient to the changes required by the reform and then applies other applicable requirements of PFRS 9 to other changes. A similar practical expedient applies to insurers applying PAS 39 and lessees for lease modifications required by a reform.
  - Relief from specific hedge accounting requirements. The amendments enable and require companies to continue hedge accounting in circumstances when changes to hedged items and hedging instruments arise as a result of changes required by the reform. A company is required to amend the formal designation of hedging relationships to reflect the changes required by the reform. Reliefs are also provided for amounts accumulated in the cash flow hedge reserve, the separately identifiable requirement, groups of items designated as hedged items and retrospective effectiveness assessment under PAS 39.
  - Disclosure requirements. To enable users of financial statements to understand the effect of reforms on a company's financial instruments and risk management strategy, additional disclosures are required on how transition to alternative benchmark rates are being managed, quantitative information about financial instruments indexed to rates yet to transition due to benchmark reform at the end of the reporting period, and the extent to which changes to the risk management strategy have occurred due to the risks identified in the transition.

The amendments apply retrospectively, but restatement of comparative information is not required. Earlier application is permitted. The amendments are still subject to the approval by the FRSC.

*Effective January 1, 2022*

- PAS 37, *Provisions, Contingent Liabilities and Contingent Assets - Onerous Contracts - Cost of Fulfilling a Contract (Amendments)* clarify that the cost of fulfilling a contract when assessing whether a contract is onerous includes all costs that relate directly to a contract - i.e. it comprises both incremental costs and an allocation of other direct costs.

The amendments apply prospectively on or after January 1, 2022. At the date of initial application, the cumulative effect of applying the amendments is recognized as an opening balance adjustment to retained earnings or other component of equity, as appropriate. Earlier application is permitted.

- *Annual Improvements to PFRS Standards 2018-2020*. This cycle of improvements contains amendments to four standards, of which, the following is relevant to the Company:
  - PFRS 9, *Financial Instruments - Fees in the '10 per cent' Test for Derecognition of Financial Liabilities (Amendments)* clarify that for the purpose of performing the '10 per cent' test for derecognition of financial liabilities, the fees paid net of fees received included in the discounted cash flows include only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022. Earlier application is permitted.

*Effective January 1, 2023*

- PAS 1, *Presentation of Financial Statements - Classification of Liabilities as Current or Non-current (Amendments)* promote consistency in application and clarify the requirements on determining whether a liability is current or non-current, the amendments:
  - removed the requirement for a right to defer settlement of a liability for at least twelve months after the reporting period to be unconditional and instead requires that the right must have substance and exist at the end of the reporting period;
  - clarified that a right to defer settlement exists only if the company complies with conditions specified in the loan agreement at the end of the reporting period, even if the lender does not test compliance until a later date; and
  - clarified that settlement of a liability includes transferring a company's own equity instruments to the counterparty, but conversion options that are classified as equity do not affect classification of the liability as current or non-current.

The amendments apply retrospectively for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted.

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#### 4. Management's Use of Judgments, Accounting Estimates and Assumptions

The preparation of the financial statements in accordance with PFRS requires management to exercise judgments, make accounting estimates and use assumptions that affect reported amounts of assets, liabilities, income and expenses and related disclosures. Future events may occur which will cause the assumptions used in arriving at the accounting estimates to change. The effects of any change in accounting estimates are reflected in the financial statements as they become reasonably determinable.

Accounting judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

##### Accounting Estimates and Assumptions

The key estimates and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below:

##### *Recognition of Deferred Income Tax Assets*

The Company reviews its deferred income tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized.

As at December 31, 2020 and 2019, the Company has carryforward benefits of unused NOLCO amounting to P2,851,527 and P2,737,852, respectively, for which no deferred income tax asset was recognized (see Note 10). Management assessed that it is not probable that future taxable profits will be available to allow all or part of its deferred income tax asset to be utilized prior to its expiration. Actual results may differ from these estimates.

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#### 5. Other Noncurrent Assets

The details of the Company's other noncurrent assets are shown below:

	2020	2019
Excess tax credits	P23,234,026	P23,234,026
Input VAT	759,399	663,608
	P23,993,425	P23,897,634

Excess tax credits pertain to prepaid taxes carried over from previous taxable years.

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#### 6. Accounts Payable

The Company's accounts payable pertains to PSE maintenance fee, retainers' fee and other expenses which are paid in advance by the former stockholders in behalf of the Company.

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## 7. Accrued Expenses

As at December 31, 2020 and 2019, the Company's accrued expenses pertain to professional fees and other accruals which amounted to P656,676 and P562,576, respectively.

Accrued professional fees amounted to P150,000 for both years ended December 31, 2020 and 2019.

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## 8. Related Party Transactions

Balances and transactions between the Company and its related parties are disclosed below.

### Due to Related Parties

Balances of due to related parties as shown in the statements of financial position are summarized as follows:

### *Key Management Personnel*

Transaction with key management personnel is detailed as follows:

	December 31, 2020		December 31, 2019	
	Transactions During the Year	Outstanding Balance	Transactions During the Year	Outstanding Balance
Stockholder's advances	P1,090,226	P7,852,438	P1,154,328	P6,762,212

Stockholder's advances represent amounts owed to related parties for working capital requirements of the Company.

Transactions with stockholders are non-interest-bearing, unsecured, payable on demand and will be settled in cash. No guarantees have been given.

### Remuneration of Key Management Personnel

In both years, no remuneration was given to the Company's directors and other members of key management personnel.

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## 9. Capital Stock

The capital stock of the Company is as follows:

	2020	2019
Ordinary shares	P25,875,000	P25,875,000
Additional paid-in capital	46,033,000	46,033,000
	P71,908,000	P71,908,000

Ordinary shares carry one vote per share and a right to dividends.

Additional paid-in capital pertains to amount paid on the issuance of shares in excess of par value.



## Capital Stock

Below are the details of the ordinary shares:

	2020		2019	
	Shares	Amount	Shares	Amount
Authorized:				
Ordinary share (P0.023 par value per share)	1,200,000,000	P27,600,000	1,200,000,000	P27,600,000
Preferred shares (P0.10 par value per share)	3,000,000,000	P300,000,000	3,000,000,000	P300,000,000
Subscribed and outstanding:				
Ordinary share (P0.023 par value per share)	1,124,999,969	P25,875,000	1,124,999,969	P25,875,000

As at December 31, 2020 and 2019, the Company has not yet issued any of its 3,000,000,000 preferred shares at P0.10 par value per share amounting to P300,000,000.

Movement in issued and outstanding capital stocks follow:

Date	Activity	Issue Price	Number of Shares
			Common Shares
September 3, 1991	Issuance of capital stocks as of listing date	P2.85	1,124,999,969
			1,124,999,969

Issued and outstanding common shares are held by 472 and 470 equity holders as at December 31, 2020 and 2019.

The Company's preferred shares have the following features:

- Have the same voting rights as ordinary shares.
- Have the same dividend rights as ordinary shares.
- In the event of liquidation, dissolution, receivership, bankruptcy, or winding up of the affairs of the Company, voluntary or involuntary, except in the case of merger or consolidation, the holders of the preferred shares shall be entitled to be paid in full, at par, or ratably, insofar as the assets of the Company will permit, for each share of preferred shares held together with the accumulated and unpaid dividends thereon, in Philippine currency, to the date of distribution, before any distribution shall be made to the holders of ordinary shares; the remaining assets of the Company shall be apportioned to the holders of the ordinary shares.



## 10. Income Taxes

The Company has no taxable income in 2020 and 2019 hence, no provision for income tax was recognized.

The reconciliation of the benefit from income tax computed at the statutory income tax rate to the actual provision for provision for income tax shown in profit or loss is as follows:

	2020	2019	2018
Losses before income tax	(P1,088,535)	(P1,048,021)	(P947,771)
Statutory income tax rate at 30%	(P326,561)	(P314,406)	(P284,331)
Adjustment in income tax resulting from the tax effects of the following:			
Unrecognized deferred income tax asset	326,561	314,406	214,491
Nondeductible expenses	-	-	69,840
	P -	P -	P -

As at December 31, 2020 and 2019, the Company has carryforward benefits of unused NOLCO amounting to P2,851,527 and P2,737,852, respectively, for which no deferred income tax asset was recognized. Management believes that it is not probable that future taxable profits will be available to allow all or part of its deferred income tax asset to be utilized prior to its expiration.

Details of the Company's NOLCO prior to taxable year 2020 are as follows:

Year Incurred	Amount	Applied Previous Year	Applied Current Year	Expired	Ending Balance	Expiry Date
2017	P974,860	P -	P -	P974,860	P -	2020
2018	714,971	-	-	-	714,971	2021
2019	1,048,021	-	-	-	1,048,021	2022
	<b>P2,737,852</b>	<b>P -</b>	<b>P -</b>	<b>P974,860</b>	<b>P1,762,992</b>	

Pursuant to Section 4(bbbb) of Republic Act (RA) 11494, *Bayanihan to Recover As One Act* and as implemented under Revenue Regulations (RR) No. 25-2020, unless otherwise disqualified from claiming the deduction, the business or enterprise which incurred net operating loss for taxable years 2020 and 2021 shall be allowed to carry over the same as a deduction from its gross income for the next five (5) consecutive taxable years immediately following the year of such loss. The net operating loss for said taxable years may be carried over as a deduction even after the expiration of RA No. 11494 provided the same are claimed within the next five (5) consecutive taxable years immediately following the year of such loss.

Details of the Company's NOLCO for the taxable year 2020 are as follows:

Year Incurred	Amount	Applied Previous Year	Applied Current Year	Expired	Ending Balance	Expiry Date
2020	P1,088,535	P -	P -	P -	P1,088,535	2025

## 11. Loss Per Share

The Company's basic loss per share is P0.0010, P0.0009 and P0.0008 as at December 31, 2020, 2019 and 2018, respectively.

The loss and weighted average number of ordinary shares used in the calculation of basic loss per share are as follows:

	2020	2019	2018
Loss used in the calculation of total basic loss per share	<b>P1,088,535</b>	P1,048,021	P947,771
Weighted average number of ordinary shares for the purposes of basic loss per share	<b>1,124,999,969</b>	1,124,999,969	1,124,999,969

The weighted average number of ordinary shares in 2020, 2019 and 2018 used for the purposes of basic loss per share were computed as follows:

	Number of Ordinary Shares	Proportion to Period	Weighted Average
Outstanding shares at the beginning and end of year	1,124,999,969	12/12	1,124,999,969

The Company did not have any potential dilutive instruments as at December 31, 2020, 2019 and 2018.

## 12. Fair Value Measurements

### Fair Value of Financial Liabilities

The carrying amounts and estimated fair values of the Company's financial liabilities as at December 31, 2020 and 2019 are presented below:

	2020		2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial Liabilities</b>				
Accounts payable	<b>P1,439,000</b>	<b>P1,439,000</b>	P1,439,000	P1,439,000
Accrued expenses	<b>656,676</b>	<b>656,676</b>	562,576	562,576
Due to related parties	<b>7,852,438</b>	<b>7,852,438</b>	6,762,212	6,762,212
	<b>P9,948,114</b>	<b>P9,948,114</b>	P8,763,788	P8,763,788

The carrying amounts of financial liabilities approximate their fair values due to either the demand feature or relatively short-term duration of these payables.

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### 13. Financial Risk Management Objectives, Policies and Procedures

The Company is exposed to liquidity risk through its financial liabilities. The risks and respective risk management policies employed by the Company to manage this risk are discussed below:

#### Liquidity Risk Management

Ultimate responsibility for liquidity risk management rests with the BOD, who have established an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. Since there is no operation and no business opportunity at this time, the Company's stockholders have advanced and are willing to advance monies to satisfy the cash requirements of the Company.

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted amounts or on the estimated timing of cash flows as at December 31:

	Within 1 Year	
	2020	2019
Accounts payable	P1,439,000	P1,439,000
Accrued expenses	656,676	562,576
Due to related parties	7,852,438	6,762,212
	<b>P9,948,114</b>	<b>P8,763,788</b>

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### 14. Capital Management Objectives, Policies and Procedures

The Company manages its capital to ensure that the Company will be able to continue as going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Company's overall strategy remains unchanged from prior year.

The capital structure of the Company consists of total liabilities and equity of the Company.

The Company's BODs review the capital structure of the Company on an annual basis. As part of this review, the BODs consider the cost of capital and the risks associated with each class of capital.

The debt to equity ratio at the end of reporting periods is as follows:

	2020	2019
Debt	P9,948,114	P8,763,788
Equity	14,045,311	15,133,846
Debt to equity ratio	<b>0.71:1</b>	0.58:1

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## 15. Reconciliation of Liabilities from Financing Activity

	2020	2019
Balance, January 1	P6,762,212	P5,607,884
Advances received from related parties	1,090,226	1,154,328
Balance, December 31	P7,852,438	P6,762,212

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## 16. Subsequent Events

### Share Swap Transactions

On a special meeting of the Company's BOD on February 19, 2021, the BOD approved the issuance of common shares of the Company, which will be created and issued out of an increase in its authorized capital stock, in exchange for 100% of the outstanding shares of Montosco Inc. ("Montosco"), Meritus Prime Distributions, Inc. ("Meritus") and Premier Wine and Spirits, Inc. ("Premier").

On a special meeting of the Company's BOD on March 15, 2021, the BOD ratified the management's approval of the valuation of three (3) liquor companies of Cosco Capital, Inc. ("Cosco") at P22,500,000,000 to be paid in stocks amounting to 11,250,000,000 common shares at P2.00 per share in exchange for 100% of Cosco's outstanding shares of Montosco, Meritus and Premier, as follows:

- 9,488,444,240 common shares of the Company will be swapped with 7,499,994 common shares of Cosco in Montosco;
- 907,885,074 common shares of the Company will be swapped with 7,499,994 common shares of Cosco in Meritus; and,
- 853,670,686 common shares of the Company will be swapped with 1,499,993 common shares of Cosco in Premier.

On a special meeting of the Company's BOD dated March 29, 2021, the BOD approved the acceptance of proposal of Cosco to subscribe and issue 11,250,000,000 common shares at P2.00 per share and enter into a Deed of Exchange of Shares with Cosco, wherein, in exchange and as a consideration of such issuance, Cosco shall assign 100% of its share in Montosco, Meritus, and Premier.

The Share Swap Transaction will take effect upon approval of the Company's stockholders and the SEC. Upon completion of the Share Swap Transaction, the Company will legally and beneficially own 100% of the outstanding shares of each of Montosco, Meritus and Premier. As a corollary, Cosco will own a controlling equity interest in the Company.

### Additional Listing of the Shares and Follow-on Public Offering

In compliance with Section 3 of the Philippine Stock Exchange ("PSE") Rules on Backdoor Listing, and Article V, Part A of the PSE Listing and Disclosure Rules on the Rule on Additional Listing of Shares, the Company must apply for listing with the PSE of the additional shares of stock to be issued in connection with the increase of the capital stock and the Share Swap Transaction to comply with the PSE listing rules. The additional listing of shares without the conduct of a rights or public offering shall be submitted for approval of the stockholders.

Considering that the proposed increase in the authorized capital stock and the Share Swap Transaction will affect the minimum public float of the Company, it intends to conduct a Follow-on Public Offering of its shares as soon as possible after the completion of the Share Swap Transaction to comply with the minimum public ownership requirement under the SEC and the PSE rules.

On a special meeting of the Company's BOD dated March 29, 2021, the BOD authorized the Company to file a request with the SEC for exemptive relief in relation to the mandatory tender offer ("MTO") requirement which may be imposed on Cosco since there is no effective change in control and beneficial ownership in the Corporation after the share swap transaction with Cosco Capital, Inc. and the subscription of Cosco Capital, Inc. is from the increase in authorized capital stock of the Corporation, and thus, not covered by the MTO requirement.

The BOD also authorized the Company to file a request with the Philippine Stock Exchange ("PSE") and the SEC for the grant of a minimum public ownership ("MPO") exemption period, to commence from subscription by Cosco up to the completion of the follow-on offering in order to comply with the MPO of at least 20% public float upon and after listing and to file a request with the Bureau of Internal Revenue ("BIR") for confirmation that Revenue Regulations No. 16-2012 will not apply during the MPO exemption period.

#### Enactment of CREATE Act

On March 26, 2021, the President of the Philippines has approved the Republic Act (RA) No. 11534, or the "Corporate Recovery and Tax Incentives for Enterprises Act" (CREATE), with nine (9) provisions vetoed by the President. Below are the salient features of the Act that are relevant to the Company.

- Corporate income tax rate is reduced from 30% to 20% for domestic corporations with net taxable income not exceeding P5 million and with total assets not exceeding P100 million. All other domestic corporations and resident foreign corporations will be subject to 25% income tax. Said reductions are effective July 1, 2020.
- Minimum corporate income tax (MCIT) rate is reduced from 2% to 1% effective July 1, 2020 to June 30, 2023.
- Percentage tax reduced from 3% to 1 % effective July 1, 2020 to June 30, 2023.
- The imposition of improperly accumulated earnings tax has been repealed.
- Definition of reorganization for purposes of applying the tax-free exchange provision under Section 40(C)(2) is expanded. Prior BIR ruling or confirmation shall not be required for purposes of availing the tax exemption of the exchange.

On April 8, 2021, the Bureau of Internal Revenue issued the following implementing revenue regulations that are effective immediately upon publication:

- BIR RR No. 2-2021, amending certain provisions of Revenue Regulations No. 2-98, As Amended, to implement the amendments introduced by RA No. 11534 to the National Revenue Code of 1997, as Amended, relative to the final tax on certain passive income.
- BIR RR No. 3-2021, Rules and Regulations implementing Section 3 of RA No. 11534 amending Section 20 of the National Internal Revenue Code of 1997, As Amended.

- BIR RR No. 4-2021, implementing the Provisions on Value-Added Tax (VAT) and Percentage Tax under RA No. 11534 which further amended the National Revenue Code of 1997, as Amended, as implemented by Revenue Regulations No. 16-2005 (Consolidated Value-Added Tax Regulations of 2005), As Amended.
- BIR RR No. 5-2021, implementing the new income tax rates on the regular income of corporations on certain passive incomes, including additional allowable deductions from gross income of persons engaged in business or practice of profession pursuant to RA No. 11534 which further amended the National Revenue Code (NIRC) of 1997.

The enactment of the CREATE Act is a non-adjusting subsequent event thus, the current and deferred income taxes as at December 31, 2020 are measured using the applicable income tax rates as at December 31, 2020.

The corporate income tax of the Company will be lowered from 30% to 20% for small and medium corporations on which the Company would qualify, effective July 1, 2020. The Company has no taxable income in 2020 and 2019, thus, the reduced rates including the other changes brought about by the Act has no significant impact on the Company's financial statements as at December 31, 2020.

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**17. Supplementary Information Required by the BIR under Revenue Regulations No. 15-2010**

In addition to the disclosures mandated under PFRS, and such other standards and/or conventions as may be adopted, companies are required by the BIR to provide in the notes to financial statements, certain supplementary information for the taxable year. The amounts relating to such information may not necessarily be the same with those amounts disclosed in the financial statements which were prepared in accordance with PFRS. The following are the tax information required for the taxable year ended December 31, 2020:

**A. VAT**

The Company has no transactions subject to Output VAT.

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Input VAT	
Balance at beginning of year	<b>P663,608</b>
Current year's domestic purchases:	
a. Goods for resale/manufacture or further processing	-
b. Goods other than for resale or manufacture	-
c. Services lodged under other accounts	<b>95,791</b>
Claims for tax credit/refund and other adjustments	-
Balance at end of year	<b>P759,399</b>

**B. All Other Taxes (Local and National)**

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<i>Other taxes paid during the year recognized under "Taxes and licenses" Account under Operating Expenses</i>	
License and permit fees	<b>P500</b>

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### **C. Tax Cases and Assessments**

As at December 31, 2020, the Company has no pending tax cases, nor has it received tax assessment notices from the BIR.

Information on landed cost of imports, customs duties, tariff fees paid or accrued, excise tax, documentary stamp tax, and withholding taxes are not applicable since the Company did not enter into transactions which will result to payment or accrual of such taxes.



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Email [ph-inquiry@kpmg.com](mailto:ph-inquiry@kpmg.com)

**REPORT OF INDEPENDENT AUDITORS  
TO ACCOMPANY SUPPLEMENTARY INFORMATION FOR FILING  
WITH THE SECURITIES AND EXCHANGE COMMISSION**

The Stockholders and Board of Directors  
**Da Vinci Capital Holdings, Inc.**  
No. 900 Romualdez Street  
Paco, Manila

We have audited in accordance with Philippine Standards on Auditing, the financial statements of **Da Vinci Capital Holdings, Inc.** (the "Company") as at and for the years ended December 31, 2020 and 2019 and have issued our report thereon dated April 16, 2021.

Our audits were made for the purpose of forming an opinion on the basic financial statements of the Company taken as a whole. The Supplementary Schedule of Financial Soundness Indicators, including their definitions, formulas and calculations, is the responsibility of the Company's management. These financial soundness indicators are not measure of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies.

Firm Regulatory Registration & Accreditation:  
PRC-BOA Registration No. 0003, valid until November 21, 2023  
SEC Accreditation No. 0003-SEC, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by SEC Accreditation No. 0004-FR-5)  
IC Accreditation No. 0003-IC, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by IC Circular Letter (CL) No. 2019-39, Transition clause)  
BSP Accreditation No. 0003-BSP, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by BSP Monetary Board Resolution No. 2161, Transition clause)





This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission and is not a required part of the financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Company's financial statements as at and for the years ended December 31, 2020 and 2019 and no material exceptions were noted (see Annex A).

**R.G. MANABAT & CO.**

*Gregorio I. Sambrano, Jr.*  
GREGORIO I. SAMBRANO, JR.  
Partner

CPA License No. 088825

SEC Accreditation No. 1548-AR-1, Group A, valid until December 17, 2021

Tax Identification No. 152-885-329

BIR Accreditation No. 08-001987-36-2018

Issued September 20, 2018; valid until September 19, 2021

PTR No. MKT 8533918

Issued January 4, 2021 at Makati City

April 16, 2021

Makati City, Metro Manila



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Email [ph-inquiry@kpmg.com](mailto:ph-inquiry@kpmg.com)

**REPORT OF INDEPENDENT AUDITORS  
TO ACCOMPANY SUPPLEMENTARY INFORMATION FOR FILING  
WITH THE SECURITIES AND EXCHANGE COMMISSION**

The Stockholders and Board of Directors  
**Da Vinci Capital Holdings, Inc.**  
No. 900 Romualdez Street  
Paco, Manila

We have audited, in accordance with Philippine Standards on Auditing, the financial statements of **Da Vinci Capital Holdings, Inc.** (the "Company") as at and for the years ended December 31, 2020 and 2019, on which we have rendered our report dated April 16, 2021.

Our audits were made for the purpose of forming an opinion on the basic financial statements of the Company taken as a whole. The supplementary information is the responsibility of the Company's management. Such additional components include:

- Supplementary Schedules of Annex 68-J
- Map of Conglomerate
- Reconciliation of Retained Earnings Available for Dividend declaration of the Company

Firm Regulatory Registration & Accreditation:  
PRC-BOA Registration No. 0003, valid until November 21, 2023  
SEC Accreditation No. 0003-SEC, Group A, valid for five (5) years covering the audit of 2020 to 2024  
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BSP Accreditation No. 0003-BSP, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by BSP Monetary Board Resolution No. 2161, Transition clause)



This supplementary information is presented for purposes of complying with the Revised Securities Regulation Code Rule 68 and is not a required part of the basic financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

**R.G. MANABAT & CO.**

*Gregorio I. Sambrano, Jr.*  
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Issued January 4, 2021 at Makati City

April 16, 2021

Makati City, Metro Manila

**DA VINCI CAPITAL HOLDINGS INC.**  
**AS AT DECEMBER 31, 2020**

Ratio	Formula	Years ended December 31																									
		2020	2019																								
Current ratio	<p>Total Current Assets divided by Total Current Liabilities</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Total current assets</td> <td style="text-align: right;">P -</td> <td></td> <td></td> </tr> <tr> <td>Divide by: Total current liabilities</td> <td style="text-align: right;">9,948,114</td> <td style="text-align: center;">-</td> <td style="text-align: center;">-</td> </tr> <tr> <td></td> <td style="text-align: right;">-</td> <td></td> <td></td> </tr> </table>	Total current assets	P -			Divide by: Total current liabilities	9,948,114	-	-		-																
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Divide by: Total current liabilities	9,948,114	-	-																								
	-																										
Acid-test ratio	<p>Quick assets (Total Current Assets less Inventories and Other Current Assets) divided by Total Current Liabilities</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Total current assets</td> <td style="text-align: right;">P -</td> <td></td> <td></td> </tr> <tr> <td>Less: Inventories</td> <td style="text-align: right;">-</td> <td></td> <td></td> </tr> <tr> <td>Other current assets</td> <td style="text-align: right;">-</td> <td style="text-align: center;">-</td> <td style="text-align: center;">-</td> </tr> <tr> <td>Quick assets</td> <td style="text-align: right;">-</td> <td></td> <td></td> </tr> <tr> <td>Divide by: Total current liabilities</td> <td style="text-align: right;">9,948,114</td> <td></td> <td></td> </tr> <tr> <td>Acid-test ratio</td> <td style="text-align: right;">-</td> <td></td> <td></td> </tr> </table>	Total current assets	P -			Less: Inventories	-			Other current assets	-	-	-	Quick assets	-			Divide by: Total current liabilities	9,948,114			Acid-test ratio	-				
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Solvency ratio	<p>Solvency ratio (Profit plus depreciation and amortization over total liabilities)</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Net income</td> <td style="text-align: right;">P -</td> <td></td> <td></td> </tr> <tr> <td>Add: Depreciation and amortization</td> <td style="text-align: right;">-</td> <td></td> <td></td> </tr> <tr> <td>Total</td> <td style="text-align: right;">-</td> <td style="text-align: center;">-</td> <td style="text-align: center;">-</td> </tr> <tr> <td>Divide by: Total liabilities</td> <td style="text-align: right;">9,948,114</td> <td></td> <td></td> </tr> <tr> <td>Solvency ratio</td> <td style="text-align: right;">-</td> <td></td> <td></td> </tr> </table>	Net income	P -			Add: Depreciation and amortization	-			Total	-	-	-	Divide by: Total liabilities	9,948,114			Solvency ratio	-								
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Debt-to-equity ratio	<p>Debt-to equity ratio (Total liabilities over total equity)</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Total liabilities</td> <td style="text-align: right;">P9,948,114</td> <td></td> <td></td> </tr> <tr> <td>Divide by: Total equity</td> <td style="text-align: right;">14,045,311</td> <td style="text-align: center;"><b>0.71</b></td> <td style="text-align: center;">0.58</td> </tr> <tr> <td></td> <td style="text-align: right;">0.71</td> <td></td> <td></td> </tr> </table>	Total liabilities	P9,948,114			Divide by: Total equity	14,045,311	<b>0.71</b>	0.58		0.71																
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Ratio	Formula	Years ended December 31																
		2020	2019															
Interest rate coverage ratio	Interest rate coverage ratio (Profit before interest and taxes over interest expense)																	
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Profit before interest and taxes	P -																	
Divide by interest expense	-	-	-															
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	-																	
Return on equity	Return on Equity (Net Income by Total Equity)																	
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Net income	P -																	
Divide by: Total assets	23,993,425	-	-															
<hr/>																		
	-																	
Net profit margin	Net profit margin (Profit over net sales)																	
	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Net income</td> <td style="text-align: right;">P -</td> <td></td> <td></td> </tr> <tr> <td>Divide by: Net sales</td> <td style="text-align: right;">-</td> <td style="text-align: center;">-</td> <td style="text-align: center;">-</td> </tr> <tr> <td colspan="2"><hr/></td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">-</td> <td></td> <td></td> </tr> </table>	Net income	P -			Divide by: Net sales	-	-	-	<hr/>					-			
Net income	P -																	
Divide by: Net sales	-	-	-															
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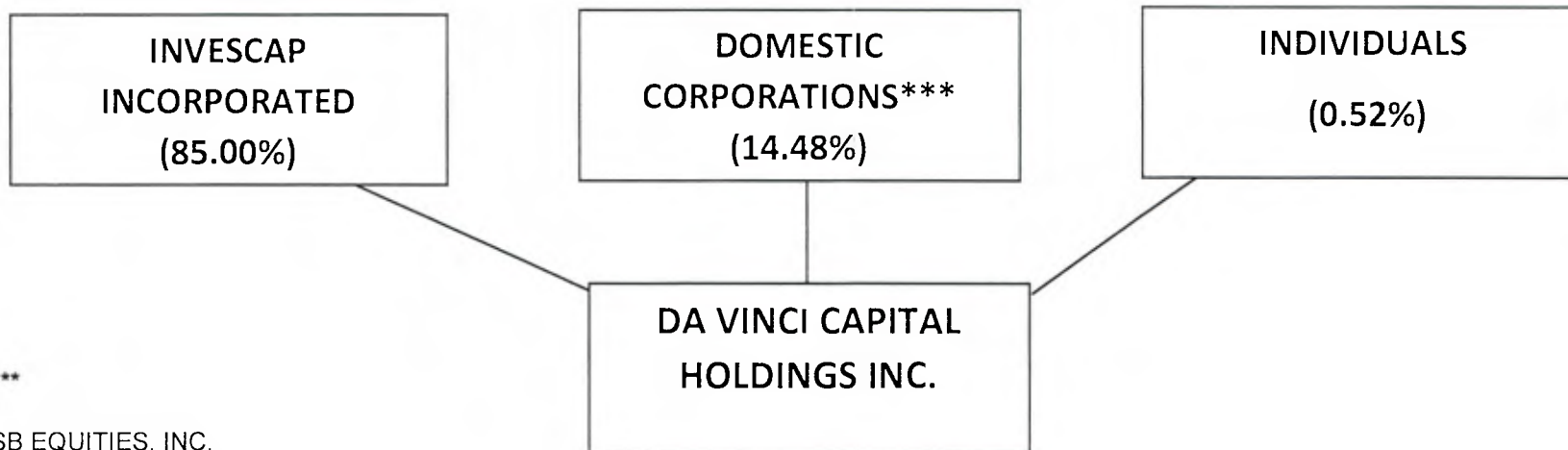
**DA VINCI CAPITAL HOLDINGS, INC.  
RECONCILIATION OF RETAINED EARNINGS  
AVAILABLE FOR DIVIDEND DECLARATION  
For the Year Ended December 31, 2020**

NOT APPLICABLE

---

**Da Vinci Capital Holdings, Inc.**

**Map of Group of Companies Within which the Company Belongs  
As at December 31, 2020**



\*\*\*

- SB EQUITIES, INC.
- TOWER SECURITIES, INC.
- COL FINANCIAL GROUP, INC.
- TGN REAL TY CORP.
- GOLDEN TOWER SECURITIES & HOLDINGS, INC.
- BDO SECURITIES CORPORATION
- KINGS POWER SECURITIES
- ABACUS SECURITIES CORPORATION
- ASTRA SECURITIES CORPORATION
- EVERGREEN STOCK BROKERAGE & SEC, INC.
- A & A SECURITIES, INC.
- ANSALDO GODINEZ & CO., INC.
- TESERO, INC.
- FIRST METRO SECURITIES BROKERAGE
- BPI SECURITIES CORPORATION
- SECURITIES SPECIALIST, INC.
- HDI SECURITIES, INC.
- PHILSTOCK FINANCIAL INC.
- EASTERN SECURITIES DEVELOPMENT CORPORATION

**DA VINCI CAPITAL HOLDINGS, INC.**  
**SCHEDULE A. FINANCIAL ASSETS**

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Name of Issuing entity and association of each issue (i)	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet (ii)	Valued based on market quotation at balance sheet date (iii)	Income received and accrued
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NOT APPLICABLE



**DA VINCI CAPITAL HOLDINGS, INC.**

**SCHEDULE B. AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN AFFILIATES)**

Name and Designation of debtor (i)	Balance at beginning of period	Additions	Amounts collected (ii)	Amounts written off (iii)	Current	Not Current	Balance at end of period
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NOT APPLICABLE

**DA VINCI CAPITAL HOLDINGS, INC.****SCHEDULE C. AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS**

Name and Designation of debtor	Balance at beginning of period	Additions	Amounts collected (i)	Amounts written off (ii)	Current	Not Current	Balance at end of period
--------------------------------	--------------------------------	-----------	-----------------------	--------------------------	---------	-------------	--------------------------

**NOT APPLICABLE**

**DA VINCI CAPITAL HOLDINGS, INC.**  
**SCHEDULE D. LONG TERM DEBT**

Title of Issue and type of obligation (i)	Lender	Outstanding Balance	Amount shown under caption "Current portion of long-term debt" in related balance sheet (ii)	Amount shown under caption "Long-Term Debt" in related balance sheet (iii)	Interest Rates	Number of Periodic Installments	Final Maturity
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**NOT APPLICABLE**

DA VINCI CAPITAL HOLDINGS, INC.

SCHEDULE E. INDEBTEDNESS TO RELATED PARTIES (LONG TERM LOANS FROM RELATED PARTIES)

Name of Related Parties (i)	Balance at beginning of period	Balance at end of period (ii)
-----------------------------	--------------------------------	-------------------------------

NOT APPLICABLE

**DA VINCI CAPITAL HOLDINGS, INC.****SCHEDULE F. GUARANTEES OF SECURITIES OF OTHER ISSUERS**

Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding (i)	Amount owned by person for which statement is filed	Nature of guarantee (ii)
--	---	---	---	--------------------------

**NOT APPLICABLE**

**DA VINCI CAPITAL HOLDINGS, INC.**  
**SCHEDULE G. CAPITAL STOCK**

Title of Issue	Number of Shares authorized	Number of shares issued and outstanding at shown under related balance sheet caption	Number of treasury common shares	Number of shares held by affiliates	Directors, officers and employees	Others
Preferred Shares	3,000,000,000	-	-	-	-	-
Common Shares	1,200,000,000	1,124,999,969	-	956,203,336	1,501	-

## Management Discussion and Analysis or Plan of Operations

The discussion and analysis of our financial condition and plan of operations should be read in conjunction with our audited financial statements and the related notes as of December 31, 2020, 2019, 2018 and 2017 which are included in this report.

The financial analysis tools used as key performance indicators for the Corporation's operations and in determining its profitability and liquidity are the following:

1. *Percentage analyses* to show the relationship of each income statement component to total sales on comparable basis.
2. *Financial Highlights* to summarize the operating results for the last three years that include sales growth analysis, return on sales, return on assets, return on equity, current ratio, and debt to equity ratio.

### Percentage Analysis

	2020	2019	2018	2017
Net Sales	0.00%	0.00%	0.00%	0.00%
Cost of Goods Sold	0.00%	0.00%	0.00%	0.00%
Gross Profit	0.00%	0.00%	0.00%	0.00%
Operating Expenses	0.00%	0.00%	0.00%	0.00%
Net Operating Income	0.00%	0.00%	0.00%	0.00%
Other charges (net)	0.00%	0.00%	0.00%	0.00%
Income before income tax	0.00%	0.00%	0.00%	0.00%
Provision for income tax	0.00%	0.00%	0.00%	0.00%
Net Income	0.00%	0.00%	0.00%	0.00%

### Operating Results for year ended December 31, 2017 to December 31, 2020

At present, the Corporation does not have any operations.

### Financial Highlights: (Based on the Corporation's Consolidated Financial Statements)

Increase/(Decrease)		2020	2019	2018	2017	Average
Sales growth	<sup>1</sup>	0.00%	0.00%	0.00%	0.00%	0.00%
Return on sales (ROS)	<sup>2</sup>	0.00%	0.00%	0.00%	0.00%	0.00%
Return on assets (ROA)	<sup>3</sup>	0.00%	0.00%	0.00%	0.00%	0.00%
Return on equity	<sup>4</sup>	0.00%	0.00%	0.00%	0.00%	0.00%
Current ratio	<sup>5</sup>	0.00	0.00	0.00	0.00	0.00

<sup>1</sup> The percentage change in sales value over prior year sales.

<sup>2</sup> Represents percentage (%) of net income over net sales.

<sup>3</sup> Represents percentage (%) of net income over total assets.

<sup>4</sup> Represents percentage (%) of net income over stockholders' equity.

<sup>5</sup> Represents the ratio of current assets over current liabilities. It also represents the Corporation's liquidity.

Debt-equity ratio <sup>6</sup> 0.71 0.58 0.47 0.38 0.54  
**2020, 2019, 2018 and 2017 Analytical Discussion**

### *Sales Growth*

No sales growth in 2020, 2019, 2018 and 2017 since it has no operations since 2013.

### *Profitability*

The Corporation's return on sales (ROS) was 0% for the years 2020, 2019, 2018 and 2017 since it has no operations since 2013.

### *Solvency and Liquidity*

The Corporation's current ratio for the years 2020, 2019, 2018 and 2017 was nil since it has no operations since 2013.

## **Material Changes in the Financial Statements**

The following are the summary of items that has material change in the financial statements:

	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>Average</b>
Receivables (net)	–	–	–	–	–
Assets held for disposal	–	–	–	–	–
Accounts payable and accrued expenses	4.7%	(0.2%)	8.6%	3.5%	4.2%
Due to related parties	16.1%	20.6%	18.3%	28.7%	20.9%
Current portion of long term debt	–	–	–	–	–
Liabilities directly associated with assets held for disposal	–	–	–	–	–

## **Material Changes in the Financial Statements in 2020, 2019, 2018 and 20170**

### *Accounts Payable and Accrued Expenses*

This pertains to the expenses accrued up to December 31, 2020 representing professional fees and other expenses to third parties that render services to the Corporation for reportorial requirements with the SEC and the PSE.

### *Due to Related Parties*

This pertains to the expenses advanced by stockholders up to December 31, 2020 since the Company has yet to open a bank account to finance its expenses.

## **Plan of Operations**

As of December 31, 2020, the Corporation has yet to identify a feasible investment opportunity. When the Corporation identifies such a viable project, it will then pursue

<sup>6</sup> Represents the percentage (%) of total liabilities over total stockholders' equity



capital raising activities either by way of a rights offering, public offering or private placement transaction. Since there is no operation and no business opportunity at this time, the Corporation's stockholders have advanced and are willing to advance monies to satisfy the cash requirements of the Corporation.

### **Other Reporting Disclosures**

There are no events that will trigger direct or contingent financial obligation that is material to the Corporation, including any default or acceleration of an obligation.

There are no:

- (i.) Known trends or events, which may have material effect on the Company's short-term or long-term liquidity;
- (ii.) Issuances, repurchases, and repayment of equity securities;
- (iii.) Segment revenue and segment result for business segment or geographical segments;
- (iv.) Changes in the composition of the Corporation during the interim period;
- (v.) Changes in contingent liabilities or contingent assets;
- (vi.) Existence of material contingencies and any other events or transactions that are material to an understanding of the current interim period;
- (vii.) Material changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years;
- (viii.) Material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Corporation with unconsolidated entities or other persons created during the reporting period;
- (ix.) Known trends or events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations.

## SECURITIES AND EXCHANGE COMMISSION

## SEC FORM 17-Q

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

1. For the quarterly period ended March 31, 2021
2. Commission identification number 24015 3. BIR Tax Identification No. 000-282-553
4. Exact name of issuer as specified in its charter DA VINCI CAPITAL HOLDINGS, INC.
5. Province, country or other jurisdiction of incorporation or organization PHILIPPINES
6. Industry Classification Code:  (SEC Use Only)
7. Address of issuer's principal office No. 900 Romualdez St., Paco, Manila
8. Issuer's telephone number, including area code (02) 523-3055
9. Former name, former address and former fiscal year, if changed since last report  
Formerly: Mariwasa Siam Holdings, Inc. and Mariwasa Manufacturing, Inc.; Barrio San Antonio, Sto. Tomas, Batangas
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Title of each Class	Number of shares of common stock outstanding and amount of debt outstanding
<u>Common Stock, P0.023</u>	<u>1,124,999,969</u>

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

Yes  No

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

Philippine Stock Exchange                      Common Stock

12. Indicate by check mark whether the registrant:

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

Yes  No

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

Yes  No

## **PART I--FINANCIAL INFORMATION**

### **DA VINCI CAPITAL HOLDINGS, INC.**

**Quarterly Report**

**March 31, 2021**

#### **Item 1. Interim Financial Statements**

**Statements of Financial Position\*\***

**Statements of Comprehensive Income**

**Statements of Changes in Equity**

**Statements of Cash Flow**

*\*\* With comparative audited figures as of December 31, 2020*

**DA VINCI CAPITAL HOLDINGS, INC.****STATEMENTS OF FINANCIAL POSITION**

March 31, 2021 and December 31, 2020

(In Thousands Philippine Peso)

	Notes	March 31, 2021 (Unaudited)	December 31, 2020 (Audited)
<b>ASSET</b>			
<b>Current Asset</b>			
Cash in bank	2	104,555	
<b>Non-current Asset</b>			
Prepayments and other assets		24,073	23,993
<b>TOTAL ASSETS</b>		<b>128,628</b>	<b>23,993</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued expenses		2,201	2,096
Due to a related party		117,594	7,852
<b>TOTAL LIABILITIES</b>		<b>119,795</b>	<b>9,948</b>
<b>STOCKHOLDERS' EQUITY</b>			
Capital Stock	2	25,875	25,875
Additional Paid-In Capital		46,033	46,033
Deficit		(63,075)	(57,863)
<b>TOTAL STOCKHOLDERS' EQUITY</b>		<b>8,833</b>	<b>14,045</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>		<b>128,628</b>	<b>23,993</b>

(See Notes to Financial Statements)

**DA VINCI CAPITAL HOLDINGS, INC.**  
**STATEMENTS OF COMPREHENSIVE INCOME**

(In Thousand Philippine Peso)

	<u>Unaudited Three Months ended</u>	
	<u>March 31, 2021</u>	<u>March 31, 2020</u>
<b>INCOME</b>		
<b>OPERATING EXPENSES</b>	<b>(5,242)</b>	<b>(620)</b>
<b>INTEREST INCOME</b>	<b>30</b>	
<b>LOSS BEFORE TAX</b>	<b>(5,212)</b>	<b>(620)</b>
<b>INCOME TAX</b>	<b>-</b>	<b>-</b>
<b>LOSS</b>	<b>(5,212)</b>	<b>(620)</b>
<b>OTHER COMPREHENSIVE INCOME</b>	<b>-</b>	<b>-</b>
<b>TOTAL COMPREHENSIVE LOSS</b>	<b>(5,212)</b>	<b>(620)</b>

**DA VINCI CAPITAL HOLDINGS, INC.**  
**STATEMENTS OF CHANGES IN EQUITY**

(In Thousands Philippine Peso)

	Notes	Unaudited	
		March 31, 2021	March 31, 2020
Capital stock	2	25,875	25,875
Additional paid-in capital		46,033	46,033
Deficit			
Beginning of year		(57,863)	(56,774)
Loss		(5,212)	(620)
End		(63,075)	(57,394)
<b>TOTAL STOCKHOLDERS' EQUITY</b>		<b>8,833</b>	<b>14,514</b>

(See Notes to Financial Statements)

**DA VINCI CAPITAL HOLDINGS, INC.**  
**STATEMENTS OF CASH FLOWS**

(In Thousands Philippine Peso)

	<b>Unaudited</b>	
	<b>March 31, 2021</b>	<b>March 31, 2020</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss before tax	<b>(5,212)</b>	(620)
Increase (Decrease) in:		
Prepayments and other assets	<b>(80)</b>	(71)
Accounts payable and accrued expenses	<b>105</b>	20
Due to a related party	<b>109,742</b>	670
<b>NET INCREASE IN CASH</b>	<b>104,555</b>	-
<b>CASH AT BEGINNING OF PERIOD</b>	-	-
<b>CASH AT END OF PERIOD</b>	<b>104,555</b>	-

(See Notes to Financial Statements)

## DA VINCI CAPITAL HOLDINGS, INC.

### Notes to Financial Statements

#### Note 1 Summary of Significant Accounting and Financial Reporting Policies

##### Basis of Preparation

The financial statements were prepared under the historical cost basis and are presented in Philippine Peso (₱) which is the Company's functional and presentation currency, and rounded off to the nearest thousands, except when otherwise stated.

##### Statement of Compliance

The separate financial statements were prepared in compliance with the Philippine Financial Reporting Standards (PFRS).

#### Note 2 Capital Stock

Information on capital stock as of March 31, 2021 are as follows:

	<b>Number of shares</b>
<b>Preferred stock at ₱0.10 par value per share</b>	
Authorized	3,000,000,000
Issued	-
<b>Common stock at ₱0.023 par value per share</b>	
Authorized	1,200,000,000
Issued	1,124,999,969

##### Increase in the authorized capital stock

On October 26, 2020, during the special meeting of the Da Vinci's Board of Directors, it resolved to approve the increase of the authorized capital stock of the Corporation and amend the Article Seventh of the Corporation's articles of incorporation for purposes of implementing the Share Swap Transaction. The authorized capital stock was approved to be increased to P2 billion divided into twenty (20) billion common shares with par value of P0.10 per share. The Board of Directors likewise approved, during the aforesaid meeting, the increase in the par value of the Corporation's shares from P0.023 per share to P0.10 per share.

During the November 20, 2020 annual stockholders' meeting, Da Vinci's stockholders approved the increase and the amendment of the articles of incorporation to reflect the increase in the authorized capital stock and par value, among others. In the same meeting, Da Vinci's board of directors was given the authority to set the final terms and conditions of the said increase including the manner of subscription thereto.

On January 28, 2021, Da Vinci and Invescap executed a Subscription Contract whereby Invescap subscribed to the required twenty-five per cent (25%) of the increase in authorized capital stock or in the amount of P418,100,000.00 divided into 4,181,000,000 common shares at the proposed par value of P0.10 per share, and paid 25% thereof in cash, to support the



increase in the authorized capital stock pursuant to the requirement under Section 37 of the Revised Corporation Code.

On February 19, 2021, the Board of Directors of the Corporation ratified the said subscription of Invescap to the 25% of the increase in the authorized capital stock at the proposed par value of P0.10 per share.

On March 29, 2021, the Board of Directors of Da Vinci approved the rescission of the Subscription Contract which was mutually agreed by the parties. The Board of Directors, after evaluating the transaction structure and discussing with its advisers, found that rescinding the Invescap subscription will streamline the process by eliminating unnecessary steps, create better efficiencies and optimize the structure that will: (1) facilitate the implementation and early completion of the share swap transaction; (2) allow the Company to create better value for all of its shareholders, including its public shareholders, that is less dilutive to the minority; and (3) provide the Company sufficient available unissued shares that will allow the Company to immediately act on capital raising opportunities when market conditions are optimal.

The rescission of the Subscription Contract will be presented by Da Vinci to the stockholders for approval.

In view of the rescission of the Subscription Contract, the proposed increase in authorized capital stock, which reflects the subscription by Invescap and which is still under evaluation by the SEC, has been withdrawn.

### **Note 3 Basic/Diluted Earnings (Loss) Per Share**

Basic/diluted earnings (loss) per share are computed as follows:

	<b>March 31, 2021</b>	<b>March 31, 2020</b>
Net income (loss) [a]	<b>(5,212,507)</b>	(620,600)
Weighted average number of shares outstanding [b]	<b>1,124,999,969</b>	1,124,999,969
Basic/diluted earnings (loss) per share [a/b]	<b>(0.00463)</b>	(0.00055)

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

### Financial Soundness Indicators

Below are the relevant financial ratios for the period ended March 31, 2021 and 2020:

		2021	2020
Current Ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	0.87	-
Asset-to-equity Ratio	$\frac{\text{Asset}}{\text{Equity}}$	14.56	1.65
Return on Equity	$\frac{\text{Net Income (Loss)}}{\text{Equity}}$	(59.00%)	(4.28%)

### Operating Results for 1st Quarter of 2021

The Company continues to have no commercial operating activity during the quarter ending March 31, 2021.

The Company's incurred net loss is principally brought about by the administrative expenses incurred.

### Material Changes in the Financial Statements

There were no material changes in the financial statements as of the period ended March 31, 2021.

### Other Reporting Disclosures

The major activities pursued by the Company during the period principally involves corporate restructuring including management reorganization and capital stock restructuring to prepare the Company to implement the Share Swap Transaction with Cosco Capital, Inc. as discussed in more detail as follows:

As discussed during its February 19, 2021 special meeting, the Board approved the issuance of common shares of the Corporation, which will be created and issued out of an increase in its authorized capital stock, in exchange for 100% of the outstanding shares of Montosco, Meritus and Premier.

Specifically, (a) 9,488,444,240 common shares of Da Vinci will be swapped with 7,499,994 common shares of Cosco in Montosco, Inc.; (b) 907,885,074 common shares of Da Vinci will be swapped with 7,499,994 common shares of Cosco in Meritus Prime Distributions, Inc.; and finally, (c) 853,670,686 common shares of Da Vinci will be swapped with 1,499,993 common shares of Cosco in Premier Wine and Spirits, Inc.

On March 29, 2021, the Board of Directors of Da Vinci approved the proposal of Cosco to subscribe to 11,250,000,000 common shares at P2.00 per share in support of the proposed increase in Da Vinci's authorized capital stock via a Share Swap Transaction.

Upon completion of the Share Swap Transaction, Da Vinci will legally and beneficially own 100% of the outstanding shares of each of Montosco, Meritus and Premier. As a corollary, Cosco will own a controlling equity interest in Da Vinci.

Apart from the above, there are no other events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.

There are no:

1. Known trends, demand, commitments, events or uncertainties that will have material impact on the Company's liquidity;
2. Issuances, repurchases, and repayment of equity securities;
3. Material commitments for capital expenditures;
4. Known trends, event or uncertainties that have or that are reasonably expected to have favorable or unfavorable impact on sales/revenues/income from continuing operations;
5. Significant elements of income or loss that did not arise from the Company's continuing operations;
6. Seasonal aspects that had a material effect on the financial condition or result of operations;
7. Material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Company with unconsolidated entities or other persons created during the reporting period.

### **Financial Risk Disclosure**

At present, the Company has no commercial operations and as such, is not exposed to any financial risk. Furthermore, the Company has no financial instruments.

### **Plan of Operations**

As of March 31, 2021, the Company is currently pursuing the implementation of the proposed Share Swap Transaction with Cosco Capital, Inc. that would result into the Company acquiring 100% ownership interest in three (3) operating liquor companies.

As soon as the proposed transaction is implemented and approved by relevant authorities, the Company plans to implement a follow-on offering of its common shares in order to comply with the minimum public ownership of the Philippine Stock Exchange and at the same time raise additional equity capital to pursue and identify a feasible investment opportunities.

For the time being, the Company can satisfy its cash requirements through advances from its controlling shareholder.

Furthermore, the Company has no any product research and development, no expected purchase or sale of plant and significant equipment and no expected significant changes in the number of employees.

### **PFRS 9. Financial Instruments: Classification and Measurement**

The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will potentially have no impact on classification and measurements of financial liabilities.

## **PART II – OTHER INFORMATION**

No other significant information for the quarter

SIGNATURE

Pursuant to the requirements of the Securities and Regulation Code, the issuer has duly caused this First Quarter Financial Statements of Da Vinci Capital Holdings, Inc. for the year 2021 to be signed on its behalf by the undersigned thereunto duly authorized.

May 07, 2021 in the City of Manila.

**DA VINCI CAPITAL HOLDINGS, INC.**

By:

A handwritten signature in black ink, appearing to read 'Jose Paulino L. Santamarina', written over a horizontal line.

**JOSE PAULINO L. SANTAMARINA**  
President

A small, handwritten signature in blue ink, appearing to read 'Imelda D. Lacap', written over a horizontal line.

**IMELDA D. LACAP**  
Comptroller

## Management's Discussion and Analysis of Operations

The following discussion and analysis of Montosco's results of operations, financial condition and certain trends, risks and uncertainties that may affect Montosco's business should be read in conjunction with the annual audited financial statements of the company for the years ended December 31, 2020 and 2019.

### Key Performance Indicators

The following financial ratios are considered by management as key performance indicators of Montosco's operating results as well as its financial condition:

- Return on investment (Net income/ Ave. stockholders' equity) - measures the profitability of stockholders' investment
- Profit margin (Net income/ Net revenue) - measures the net income produced for each peso of sales
- EBITDA to interest expense (EBITDA/ Interest expense) – measures the ability of Montosco to pay interest of its outstanding debts
- Current ratio (Current asset/ Current liabilities) - measures the short-term debt-paying ability of Montosco
- Asset turnover (Net revenue/ Average total assets) - measures how efficiently assets are used to generate revenues
- Asset to equity ratio (Assets/ Shareholders' equity) - indicates Montosco's leverage used to finance the firm
- Debt to equity ratio (Liabilities/ Shareholders' Equity) -measure of Montosco's financial leverage

The table below shows the key performance indicators for the past two years:

<b>Performance Indicators</b>	<b>2020</b>	<b>2019</b>
Return on investment	<b>27.90%</b>	<b>38.62%</b>
Profit margin	<b>17.54%</b>	<b>13.61%</b>
EBITDA to interest expense	<b>119.65x</b>	<b>43.08x</b>
Current ratio	<b>3.94:1</b>	<b>2.60:1</b>
Asset turnover	<b>1.07:1</b>	<b>1.67:1</b>
Asset to equity	<b>1.36:1</b>	<b>1.62:1</b>
Debt to equity ratio	<b>0.36:1</b>	<b>0.62:1</b>

These financial ratios were calculated based on the audited financial statements of Montosco for the years ended December 31, 2020 and 2019.

### Comparative Years 2020 and 2019

The table below shows the results of operations of Montosco for the years ended December 31, 2020 and 2019:

<i>(In Thousands)</i>	FY2020	%	FY2019	%	Inc (Dec)	%
REVENUES	6,106,846	100.00%	8,155,525	100.00%	(2,048,679)	-25.12%
COST OF SALES	4,263,930	69.82%	6,130,313	75.17%	(1,866,383)	-30.45%
GROSS PROFIT	1,842,916	30.18%	2,025,212	24.83%	(182,296)	-9.00%
OPERATING EXPENSES	431,325	7.06%	545,503	6.69%	(114,178)	-20.93%
INCOME FROM OPERATIONS	1,411,591	23.12%	1,479,709	18.14%	(68,118)	-4.60%
OTHER INCOME (CHARGES) - net	9,403	0.15%	288	0.00%	9,115	3164.93%
INCOME BEFORE INCOME TAX	1,402,188	22.97%	1,479,998	18.15%	(77,810)	-5.26%
INCOME TAX EXPENSE	331,725	5.43%	370,311	4.54%	(38,586)	-10.42%
NET INCOME FOR THE YEAR	1,070,463	17.54%	1,109,687	13.61%	(39,224)	-3.53%

#### **Revenues**

Montosco posted a revenue of P6.06 Billion during the year ended December 31, 2020, which decreased by 25.12%. The decline is mainly attributable to the liquor bans imposed nationwide during the enhanced community quarantine lockdown that started on March 16, 2020 up to May 31, 2020 which was re-imposed in the NCR from August 4 to 18, 2020.

#### **Cost of Sales**

Montosco's cost of sales decreased by 30.45% in 2020. Significant improvement in gross profit rate was due to the effect of price increase and the decrease in the supports extended for customers' local promotions. Local promotional activities of Montosco's customers were significantly affected by the pandemic. Excise tax rates increased in 2020 but the effect on cost will be felt on 2021 since Montosco has significant inventory balance at the close of 2019. There were minimal shipments in 2020 due to the current pandemic.

#### **Operating Expenses**

Operating expenses decreased by 20.93% or P114.18 million in 2020 due to the cost saving measures in response to the decline in sales caused by the pandemic. Montosco strengthened its position and ensures relevance through presence in social media and online market.

#### **Other Income and Charges**

Other income and charges-net increase of P9.11 million was due to net effect of interest income on time deposits and interest paid loans and advances.

**Net Income**

In 2020, Montosco realized a net income of P1.07 Billion which is approximately the same to last year's net income mainly due to strategic cost-saving measures implemented by the segment despite of the decline in sales.

**Statements of Financial Position**

Shown below are the comparative financial position of Montosco:



<i>(In Thousands)</i>	FY2020	%	FY2019	%	Inc (Dec)	%
<b>ASSETS</b>						
<b>Current Assets</b>						
Cash and cash equivalents	2,177,069	37.56%	167,845	3.04%	2,009,224	1197.07%
Receivables - net	1,016,343	17.53%	1,444,904	26.15%	(428,561)	-29.66%
Inventories	1,931,696	33.33%	3,427,766	62.03%	(1,496,070)	-43.65%
Prepayments and other current assets	541,689	9.35%	445,283	8.06%	96,406	21.65%
<b>Total current assets</b>	<b>5,666,797</b>	<b>97.77%</b>	<b>5,485,798</b>	<b>99.27%</b>	<b>180,999</b>	<b>3.30%</b>
<b>Noncurrent Assets</b>					-	
Property and equipment - net	19,065	0.33%	9,412	0.17%	9,653	102.56%
Right-of-use assets	100,135	1.73%	26,736	0.48%	73,399	274.53%
Other non-current assets	9,808	0.17%	4,128	0.07%	5,680	137.60%
<b>Total noncurrent assets</b>	<b>129,008</b>	<b>2.23%</b>	<b>40,276</b>	<b>0.73%</b>	<b>88,732</b>	<b>220.31%</b>
<b>Total Assets</b>	<b>5,795,805</b>	<b>100.00%</b>	<b>5,526,074</b>	<b>100.00%</b>	<b>269,731</b>	<b>4.88%</b>
<b>LIABILITIES AND EQUITY</b>					-	
<b>Current Liabilities</b>					-	
Accounts payable and accrued expenses	1,063,297	18.35%	1,124,965	20.36%	(61,668)	-5.48%
Income tax payable	152,686	2.63%	139,332	2.52%	13,354	9.58%
Short-term loans payable	0	0.00%	120,000	2.17%	(120,000)	-100.00%
Dividends payable	200,000	3.45%	50,000	0.90%	150,000	300.00%
Lease liability	23,521	0.40%	14,431	0.26%	9,090	62.99%
Due to related parties	0	0.00%	659,500	11.93%	(659,500)	-100.00%
<b>Total current liabilities</b>	<b>1,439,504</b>	<b>24.84%</b>	<b>2,108,229</b>	<b>38.15%</b>	<b>(668,725)</b>	<b>-31.72%</b>
<b>Noncurrent Liabilities</b>					-	
Retirement benefit liability	3,071	0.05%	2,341	0.04%	730	31.18%
Lease liability-net of current portion	80,724	1.39%	13,129	0.24%	67,595	514.85%
<b>Total noncurrent liabilities</b>	<b>83,795</b>	<b>1.44%</b>	<b>15,469</b>	<b>0.28%</b>	<b>68,326</b>	<b>441.70%</b>
<b>Total Liabilities</b>	<b>1,523,299</b>	<b>26.28%</b>	<b>2,123,698</b>	<b>38.43%</b>	<b>(600,399)</b>	<b>-28.27%</b>
<b>EQUITY</b>						
Capital stock	750,000	12.94%	750,000	13.57%	-	0.00%
Retained earnings	3,523,204	60.79%	2,652,741	48.00%	870,463	32.81%
Remeasurement of retirement liability - net of tax	-698	-0.01%	-365	-0.01%	(333)	91.23%
<b>Total Equity</b>	<b>4,272,506</b>	<b>73.72%</b>	<b>3,402,376</b>	<b>61.57%</b>	<b>870,130</b>	<b>25.57%</b>
<b>Total Liabilities and Equity</b>	<b>5,795,805</b>	<b>100.00%</b>	<b>5,526,074</b>	<b>100.00%</b>	<b>269,731</b>	<b>4.88%</b>

### **Current Assets**

**Cash and cash equivalents** amounted to P2.18 Billion as at December 31, 2020 with an increase of P2.0 Billion from December 31, 2019 balance. The increase was due basically to the net effect of the net operating cash flows, collection of receivables and settlement of trade and non-trade payables during the year.



**Receivables** decreased by 29.66% from December 31, 2019 balance of P1.44 Billion to 2020 balance of P1.02 Billion due mainly to the net effect of collections made. Collection efforts in 2020 was also strengthened.

**Inventories** decreased by 43.65% from 2019 balance of P3.43 Billion to 2020 balance of P1.93 Billion due to scaling down of orders from suppliers caused by enhanced community quarantines.

**Prepaid expenses and other current assets** increased by P96.41 Million or 21.65% at the end of December 2020, mainly due to prepayments made for excise taxes.

### **Non-current Assets**

**Property and equipment-net** book values of property and equipment increased to P19.06 Million from P9.41 Million in December 2019 due to some capital expenditures for leasehold improvements.

**Right-of-use assets (ROU)** represents the values recognized from long-term lease contracts covering land and buildings utilized. Book values of ROU increased by P73.40 million from P26.74 million in December 2019 to P100.14 Million in December 2020 due principally to additional ROU assets recognized from new lease contracts entered into net of depreciation recognized during the same year.

**Other non-current assets** increased by P5.68 Million in 2020 and by P1.98 Million in 2019 mainly due to the payment of deposits on lease contract.

### **Current Liabilities**

**Accounts payable and accrued expenses** pertains to the trade payable to suppliers. The decrease by 5.48% was primarily due to settlements of trade and non-trade liabilities.

**Income tax payable** increased by P13.35 million from is mainly due to additional income taxes incurred relative to the increase in net taxable income during the year 2020 in relation to the same period in 2019.

**Dividends payable** increased by P150.0 million in 2020 mainly due to dividend declarations and payments made during 2020.

**Short-term loans payable** account decreased by P120 million in 2020 due to settlements made.

**Lease liabilities due within one year** account increased by P9.09 million from P14.43 Million in December 2019 to P23.52 Million in December 2020 due principally to the net effect of

additional leases, interest expense amortization recognized and lease payments made during the current period pertaining current portions.

**Due to related parties** decreased by P659.50 Million in 2020 mainly due to the settlements made.

### **Noncurrent Liabilities**

**Lease liabilities** represents the values recognized from long-term lease contracts covering land and buildings utilized by Montosco. The account increased by P67.59 million from P13.13 million in December 2019 to P80.72 million in December 2020 due principally to the net effect of additional leases, interest expense amortization recognized and lease payments made during the current year.

**Retirement benefit liability** amounted to P3.07 million as of December 31, 2020 which increased by P0.73 million from December 31, 2019 balance of P2.34 million due to increase in number of employees in the current year's actuarial valuations.

### **Equity**

**Retained earnings** increased by P870.63 million or 25.58% from P2.65 Billion in December 2019 to P3.52 Billion as at December 31, 2020 due to profit realized by Montosco, net of cash dividend declaration of P200 million.

### **Sources and Uses of Cash**

A brief summary of cash flow movements is shown below:

<i>(In thousands)</i>	2020	2019
Net cash from operating activities	2,905,024	575,388
Net cash used in investing activities	(21,170)	(5,418)
Net cash used in financing activities	(874,626)	(484,703)
Net increase (decrease) in cash and cash equivalents	2,009,228	(85,267)

Net cash from operating activities during the current year is basically attributable to the cash generated from operations and effect of the net settlement of trade payable accounts, purchase of inventory requirements and other related current operating requirements.

Net cash used in investing activities mainly pertains to the funds used for additional assets acquisition and capital expenditures.

Net cash used in financing activities principally resulted from the net settlements of bank loans, advances from related parties and payment of 2019 cash dividends declared.

Management believes that the current levels of internally generated funds from its operating activities and its present cash position enables Montosco to meet its immediate future liquidity requirements under its current level of business operations. With its strong current financial position, this can be augmented through availments from existing untapped banking and credit facilities as and when required.

### **Material Events and Uncertainties**

**Below is the discussion and analysis of material events and uncertainties known to management that would address the past and would have an impact on future operations:**

- (i) Seasonal aspects that had a material effect on the financial condition or results of Montosco's operations includes retail and liquor business which sales tend to peak during the gift-giving Christmas season;
- (ii) There are no changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years;
- (iii) There are no material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period;
- (iv) There are no contingent liabilities or assets since the last statement of financial position period;
- (v) Sources of liquidity – Funding will be sourced from internally generated cash flow.
- (vi) There are no events that will trigger direct or contingent financial obligation that is material to Montosco, including any default or acceleration of an obligation;
- (vii) There are no material commitments for capital expenditures other than those performed in the ordinary course of trade or business;
- (viii) There are no known trends, events or uncertainties that have had or that are reasonably expected to have a material impact on the revenues or income from continuing operations;
- (ix) There are no significant elements of income not arising from continuing operations;
- (x) Due to Montosco's sound financial condition, there are no foreseeable trends or events that may have material impact on its short-term or long-term liquidity.

## Management's Discussion and Analysis of Operations

The following discussion and analysis of Montosco's results of operations, financial condition and certain trends, risks and uncertainties that may affect Montosco's business should be read in conjunction with the annual audited financial statements of the company for the years ended December 31, 2019 and 2018.

### Key Performance Indicators

The following financial ratios are considered by management as key performance indicators of Montosco's operating results as well as its financial condition:

- Return on investment (Net income/ Ave. stockholders' equity) - measures the profitability of stockholders' investment
- Profit margin (Net income/ Net revenue) - measures the net income produced for each peso of sales
- EBITDA to interest expense (EBITDA/ Interest expense) – measures the ability of Montosco to pay interest of its outstanding debts
- Current ratio (Current asset/ Current liabilities) - measures the short-term debt-paying ability of Montosco
- Asset turnover (Net revenue/ Average total assets) - measures how efficiently assets are used to generate revenues
- Asset to equity ratio (Assets/ Shareholders' equity) - indicates Montosco's leverage used to finance the firm
- Debt to equity ratio (Liabilities/ Shareholders' Equity) -measure of Montosco's financial leverage

The table below shows the key performance indicators for the past two years:

<b>Performance Indicators</b>	<b>2019</b>	<b>2018</b>
Return on investment	<b>38.62%</b>	<b>34.76%</b>
Profit margin	<b>13.61%</b>	<b>13.39%</b>
EBITDA to interest expense	<b>43.08x</b>	<b>60.80x</b>
Current ratio	<b>2.60:1</b>	<b>2.23:1</b>
Asset turnover	<b>1.67:1</b>	<b>1.46:1</b>
Asset to equity	<b>1.62:1</b>	<b>1:81:1</b>
Debt to equity ratio	<b>0.62:1</b>	<b>0.81:1</b>

These financial ratios were calculated based on the audited financial statements of Montosco for the years ended December 31, 2019 and 2018.

### **Comparative Years 2020 and 2019**

The table below shows the results of operations of Montosco for the years ended December 31, 2019 and 2018.

<i>(In Thousands)</i>	FY2019	%	FY2018	%	Inc (Dec)	%
REVENUES	8,155,525	100.00%	5,291,847	100.00%	2,863,678	54.11%
COST OF SALES	6,130,313	75.17%	4,019,765	75.96%	2,110,548	52.50%
GROSS PROFIT	2,025,212	24.83%	1,272,082	24.04%	753,130	59.20%
OPERATING EXPENSES	545,503	6.69%	391,535	7.40%	153,968	39.32%
INCOME FROM OPERATIONS	1,479,709	18.14%	880,547	16.64%	599,162	68.04%
OTHER INCOME (CHARGES) - net	288	0.00%	73,953	1.40%	(73,665)	-99.61%
INCOME BEFORE INCOME TAX	1,479,998	18.15%	954,500	18.04%	525,498	55.05%
INCOME TAX EXPENSE	370,311	4.54%	245,686	4.64%	124,625	50.73%
NET INCOME FOR THE YEAR	1,109,687	13.61%	708,814	13.39%	400,873	56.56%

#### **Revenues**

Montosco posted a revenue of P8.15 billion during the year ended December 31, 2019, which increased by of 54.11% or P2.8 billion from 2018 revenues of P5.29 billion. Montosco is sustaining the increasing sales volume of its flagship brand Alfonso with its continued relevant marketing strategies and end-customer promotions approach. Also, the employment of a more efficient logistics infrastructure made its way to penetrate more areas and widen distribution coverage. Montosco is likewise continuously expanding its brand portfolio, adding new products that contributes to increase in revenues.

#### **Cost of Sales**

Montosco increased its cost of sales by 52.23% or P1.25 billion compared to 2018 cost of sales of P4.10 billion, expectedly, due the increase in its revenues. The cost is relatively stable since majority of the supply were procured in previous year when no significant increases in costs, excise tax rates and other importation charges and that the foreign currency rates are favourable.

#### **Operating Expenses**

Montosco's operating expenses during 2019 amounting to P545.50 million increased by 39.32% as compared to 2018 amount of P391.53 million due mainly to the increased allocations for trade deals. Montosco also continued its sales driver marketing activities specifically the offering of Gifts with Purchase (GWPs) and maintaining its packaging for gift giving. Distribution charges significantly increased as well as a result of more efficient servicing of accounts.

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

Other income (charges) of Montosco in 2019 decreased by 99.61% from its 2018 amount of P73.91 million basically due to the increase in interest expense relative to the bank loans and advances for related parties.

**Net Income**

Net income increased by 57% in 2019 due to the increase in revenues coupled with improvements in cost of sales and operating expenses ratios to revenues.

**Statements of Financial Position**

Shown below are the comparative financial position of Montosco:

<i>(In Thousands)</i>	FY2019	%	FY2018	%	Inc (Dec)	%
<b>ASSETS</b>						
<b>Current Assets</b>						
Cash and cash equivalents	167,845	3.04%	82,602	1.95%	85,243	103.20%
Receivables - net	1,444,904	26.15%	848,714	19.99%	596,190	70.25%
Inventories	3,427,766	62.03%	2,541,957	59.87%	885,809	34.85%
Prepayments and other current assets	445,283	8.06%	740,299	17.44%	(295,016)	-39.85%
<b>Total current assets</b>	<b>5,485,798</b>	<b>99.27%</b>	<b>4,213,572</b>	<b>99.25%</b>	<b>1,272,226</b>	<b>30.19%</b>
<b>Noncurrent Assets</b>						
Property and equipment - net	9,412	0.17%	9,170	0.22%	242	2.64%
Right-of-use assets	26,736	0.48%	20,668	0.49%	6,068	29.36%
Other non-current assets	4,128	0.07%	2,146	0.05%	1,982	92.36%
<b>Total noncurrent assets</b>	<b>40,276</b>	<b>0.73%</b>	<b>31,984</b>	<b>0.75%</b>	<b>8,292</b>	<b>25.93%</b>
<b>Total Assets</b>	<b>5,526,074</b>	<b>100.00%</b>	<b>4,245,556</b>	<b>100.00%</b>	<b>1,280,518</b>	<b>30.16%</b>
<b>LIABILITIES AND EQUITY</b>						
<b>Current Liabilities</b>						
Accounts payable and accrued expenses	1,124,965	20.36%	582,285	13.72%	542,680	93.20%
Income tax payable	139,332	2.52%	84,864	2.00%	54,468	64.18%
Short-term loans payable	120,000	2.17%	353,000	8.31%	(233,000)	-66.01%
Dividends payable	50,000	0.90%	200,000	4.71%	(150,000)	-75.00%
Lease liability	14,431	0.26%	10,545	0.25%	3,886	36.85%
Due to related parties	659,500	11.93%	659,500	15.53%	-	0.00%
<b>Total current liabilities</b>	<b>2,108,229</b>	<b>38.15%</b>	<b>1,890,194</b>	<b>44.52%</b>	<b>218,035</b>	<b>11.54%</b>
<b>Noncurrent Liabilities</b>						
Retirement benefit liability	2,341	0.04%	1,113	0.03%	1,228	110.33%
Lease liability-net of current portion	13,129	0.24%	10,635	0.25%	2,494	23.45%
<b>Total noncurrent liabilities</b>	<b>15,469</b>	<b>0.28%</b>	<b>11,748</b>	<b>0.28%</b>	<b>3,721</b>	<b>31.67%</b>
<b>Total Liabilities</b>	<b>2,123,698</b>	<b>38.43%</b>	<b>1,901,942</b>	<b>44.80%</b>	<b>221,756</b>	<b>11.66%</b>
<b>EQUITY</b>						
Capital stock	750,000	13.57%	750,000	17.67%	-	0.00%
Retained earnings	2,652,741	48.00%	1,593,054	37.52%	1,059,687	66.52%
Remeasurement of retirement liability - net of tax	(365)	-0.01%	560	0.01%	(925)	-165.18%
<b>Total Equity</b>	<b>3,402,376</b>	<b>61.57%</b>	<b>2,343,614</b>	<b>55.20%</b>	<b>1,058,762</b>	<b>45.18%</b>
<b>Total Liabilities and Equity</b>	<b>5,526,074</b>	<b>100.00%</b>	<b>4,245,556</b>	<b>100.00%</b>	<b>1,280,518</b>	<b>30.16%</b>

### **Current Assets**

**Cash and cash equivalents** as of December 31, 2019 of P167.84 million grew more than double compared to its balance as at December 3, 2018 of P82.60 million. The increase was due basically to the net effect of the net operating cash flows, collection of receivables and settlement of trade and non-trade payables during the year. Credit issues with customers were continuously evaluated and addressed to enable smooth cash flows.

**Receivables** as of December 31, 2019 increased by 70.25% or P596.19 million due to the significant increase of sales on account particularly towards the end of the year which is a season of gift giving. Certain customers are given extended terms for their end of year purchases.

**Inventories** increased by 34.85% or P885.81 million as of December 31, 2019 as compared to the balance as of December 31, 2018 amounting to P2.54 billion was the result of increase in level of supply in anticipation of increasing sales volume forecast.

**Prepayments and other current assets** decreased of 39.85% in 2019 balance as against the 2018 balance of P740 million is a result of applications of prepayments to suppliers and advances for taxes on 2019 purchases.

#### **Non-current Assets**

**Property and equipment-net** book values amounted to P9.41 million and P9.17 million as of December 31, 2019 and 2018, respectively. There were only minimal capital expenditures in 2019.

**Right-of-use assets (ROU)** represents the values recognized from long-term lease contracts covering land and buildings utilized. Book values of ROU as of December 31, 2019 and 2018 are at P26.74 million and P20.67 million, respectively. The increase was due to additional lease of warehouse facility.

**Other non-current assets** increased by P1.98 million in 2019 from its balance as of December 31, 2018 of P2.15 million mainly due to the payment of deposits on lease contract.

#### **Current Liabilities**

**Accounts payable and accrued expenses** pertains to the trade payable to suppliers. This account posted an increase of 93.20% or P542.68 million as of December 31, 2019 compared to the balance as of December 31, 2018, due mainly to the increased level of purchases on account. Purchases relatively increased due to the significant increase in sales volume. It also includes material amount for the accrual of expenses for distribution and merchandising.

**Income tax payable** account significantly increased by 64.18% in 2019 versus 2018 due to the increase in net income resulted from the increase in revenue in 2019.

**Dividend payable** decreased by P150.0 million in 2019 mainly due to dividend declarations and payments made in 2019.

**Short-term loans payable** account decreased by P233 million in 2019 due to settlements made.



**Lease liabilities due within one year** account increased by P3.89 million from P10.54 million in December 2018 to P14.43 million in December 2019 due principally to the net effect of additional leases, interest expense amortization recognized and lease payments made during the current period pertaining current portions.

**Noncurrent Liabilities**

**Retirement benefit liability** increased by P1.23 million as of December 31, 2019 due to increase in number of employees and salary rate increase assumptions set forth the Actuarial Valuation dated December 31, 2019.

**Lease liabilities** represents the values recognized from long-term lease contracts covering land and buildings utilized by Montosco. The account increased by P2.49 million from P10.63 million in December 2018 to P13.13 million in December 2019 due principally to the net effect of additional leases, interest expense amortization recognized and lease payments made during the current year.

**Equity**

**Retained earnings** in 2019 increased by P1.06 billion or 66.52% due to profit realized by Montosco, net of cash dividend declaration of P50 million.

**Sources and Uses of Cash**

A brief summary of cash flow movements is shown below:

<i>(In thousands)</i>	2019	2018
Net cash from (used in) operating activities	575,388	(230,955)
Net cash used in investing activities	(5,418)	(6,913)
Net cash from (used in) financing activities	(484,703)	56,558
Net decrease in cash and cash equivalents	(85,267)	(181,324)

Net cash from and used in operating activities during the current year is basically attributable to the cash generated from operations and effect of the net settlement of trade payable accounts, purchase of inventories requirements and other related current operating requirements.

Net cash used in investing activities mainly pertains to the funds used for additional assets acquisition and capital expenditures.

Net cash from and used in financing activities principally resulted from the net settlements and availment of bank loans and advances from related parties and the payment of 2019 cash dividends.

Management believes that the current levels of internally generated funds from its operating activities and its present cash position enables Montosco to meet its immediate future liquidity requirements under its current level of business operations. With its strong current financial position, this can be augmented through availments from existing untapped banking and credit facilities as and when required.

### **Material Events and Uncertainties**

**Below is the discussion and analysis of material events and uncertainties known to management that would address the past and would have an impact on future operations:**

- (xi) Seasonal aspects that had a material effect on the financial condition or results of Montosco's operations includes retail and liquor business which sales tend to peak during the gift-giving Christmas season;
- (xii) There are no changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years;
- (xiii) There are no material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period;
- (xiv) There are no contingent liabilities or assets since the last statement of financial position period;
- (xv) Sources of liquidity – Funding will be sourced from internally generated cash flow.
- (xvi) There are no events that will trigger direct or contingent financial obligation that is material to Montosco, including any default or acceleration of an obligation;
- (xvii) There are no material commitments for capital expenditures other than those performed in the ordinary course of trade or business;
- (xviii) There are no known trends, events or uncertainties that have had or that are reasonably expected to have a material impact on the revenues or income from continuing operations;
- (xix) There are no significant elements of income not arising from continuing operations;
- (xx) Due to Montosco's sound financial condition, there are no foreseeable trends or events that may have material impact on its short-term or long-term liquidity.

## Management's Discussion and Analysis of Operations

The following discussion and analysis of Montosco's results of operations, financial condition and certain trends, risks and uncertainties that may affect Montosco's business should be read in conjunction with the annual audited financial statements of the company for the years ended December 31, 2018 and 2017.

### Key Performance Indicators

The following financial ratios are considered by management as key performance indicators of Montosco's operating results as well as its financial condition:

- Return on investment (Net income/ Ave. stockholders' equity) - measures the profitability of stockholders' investment
- Profit margin (Net income/ Net revenue) - measures the net income produced for each peso of sales
- EBITDA to interest expense (EBITDA/ Interest expense) – measures the ability of Montosco to pay interest of its outstanding debts
- Current ratio (Current asset/ Current liabilities) - measures the short-term debt-paying ability of Montosco
- Asset turnover (Net revenue/ Average total assets) - measures how efficiently assets are used to generate revenues
- Asset to equity ratio (Assets/ Shareholders' equity) - indicates Montosco's leverage used to finance the firm
- Debt to equity ratio (Liabilities/ Shareholders' Equity) -measure of Montosco's financial leverage

The table below shows the key performance indicators for the past two years:

<b>Performance Indicators</b>	<b>2018</b>	<b>2017</b>
Return on investment	<b>34.76%</b>	<b>30.39%</b>
Profit margin	<b>13.39%</b>	<b>8.90%</b>
EBITDA to interest expense	<b>60.80x</b>	<b>77.66x</b>
Current ratio	<b>2.23:1</b>	<b>2.35:1</b>
Asset turnover	<b>1.46:1</b>	<b>1.26:1</b>
Asset to equity	<b>1:81:1</b>	<b>1.74:1</b>
Debt to equity ratio	<b>0.81:1</b>	<b>0.74:1</b>

These financial ratios were calculated based on the audited financial statements of Montosco for the years ended December 31, 2018 and 2017.

### **Comparative Years 2018 and 2017**

The table below shows the results of operations of Montosco for the years ended December 31, 2018 and 2017:

<i>(In Thousands)</i>	FY2018	%	FY2017	%	Inc (Dec)	%
REVENUES	5,291,847	100.00%	3,647,917	100.00%	1,643,930	45.06%
COST OF SALES	4,019,765	75.96%	2,767,823	75.87%	1,251,942	45.23%
GROSS PROFIT	1,272,082	24.04%	880,094	24.13%	391,988	44.54%
OPERATING EXPENSES	392,358	7.41%	281,113	7.71%	111,245	39.57%
INCOME FROM OPERATIONS	879,724	16.62%	598,981	16.42%	280,743	46.87%
OTHER INCOME (CHARGES) - net	75,213	1.42%	42,594	1.17%	32,619	76.58%
INCOME BEFORE INCOME TAX	954,937	18.05%	641,575	17.59%	313,362	48.84%
INCOME TAX EXPENSE	245,686	4.64%	170,808	4.68%	74,878	43.84%
NET INCOME FOR THE YEAR	709,251	13.40%	470,767	12.91%	238,484	50.66%

#### **Revenues**

Montosco's revenues for the year 2018 increased to P5.29 billion or 45.06% over its 2017 revenues of P3.65 billion. The significant increase was the result of the brand building activities done during the past years. The increasing marketing activities, expanding product reach and distribution through various channels is continuously improving the top line.

#### **Cost of Sales**

Montosco's increased in its cost of sales of 45.23% or P1.25 billion is parallel to the increase in its revenues. There were no significant increase in costs, excise tax rates and other importation charges during the past year.

#### **Operating Expenses**

Montosco's operating expenses during 2018 increased by 39.57% as compared to 2017 due mainly to the increased in marketing expenses which includes trade deals, bundling and samplings. Montosco also widened merchandising coverage to ensure presence of its products in the market. All these, contributed to the increase in revenues.

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

Significant increase in other income (charges) of Montosco in 2018 pertains to the effect of favourable exchange rates on foreign currency denominated accounts.

#### **Net Income**

The increase in bottom line in 2018 of about 50.66% over its net income of P470.77 million in 2017 was the result of significant increase in revenues and other income. Also, income tax ratio

to revenue in 2018 and 2017 maintains the same rate as it employs the same method of Optional Standard Deduction (OSD).

**Statements of Financial Position**

**Shown below are the comparative financial position of Montosco:**

<i>(In Thousands)</i>	FY2018	%	FY2017	%	Inc (Dec)	%
<b>ASSETS</b>						
<b>Current Assets</b>						
Cash and cash equivalents	82,602	1.96%	263,926	6.25%	(181,324)	-68.70%
Receivables - net	848,714	20.09%	1,053,352	24.93%	(204,638)	-19.43%
Inventories	2,541,957	60.17%	1,262,557	29.88%	1,279,400	101.33%
Prepayments and other current assets	740,299	17.52%	427,303	10.11%	312,996	73.25%
<b>Total current assets</b>	<b>4,213,572</b>	<b>99.73%</b>	<b>3,007,138</b>	<b>71.18%</b>	<b>1,206,434</b>	<b>40.12%</b>
<b>Noncurrent Assets</b>						
Property and equipment - net	9,170	0.22%	5,097	0.12%	4,073	79.91%
Other non-current assets	2,146	0.05%	2,037	0.05%	109	5.35%
<b>Total noncurrent assets</b>	<b>11,316</b>	<b>0.27%</b>	<b>7,134</b>	<b>0.17%</b>	<b>4,182</b>	<b>58.62%</b>
<b>Total Assets</b>	<b>4,224,888</b>	<b>100.00%</b>	<b>3,014,272</b>	<b>71.35%</b>	<b>1,210,616</b>	<b>40.16%</b>
<b>LIABILITIES AND EQUITY</b>						
<b>Current Liabilities</b>						
Accounts payable and accrued expenses	582,321	13.78%	183,718	4.35%	398,603	216.96%
Income tax payable	84,864	2.01%	60,765	1.44%	24,099	39.66%
Short-term loans payable	353,000	8.36%	700,000	16.57%	(347,000)	-49.57%
Dividends payable	200,000	4.73%	100,000	2.37%	100,000	100.00%
Due to related parties	659,500	15.61%	234,000	5.54%	425,500	181.84%
<b>Total current liabilities</b>	<b>1,879,685</b>	<b>44.49%</b>	<b>1,278,483</b>	<b>30.26%</b>	<b>601,202</b>	<b>47.02%</b>
<b>Noncurrent Liabilities</b>						
Retirement benefit liability	1,113	0.03%	1,550	0.04%	(437)	-28.19%
<b>Total Liabilities</b>	<b>1,880,798</b>	<b>44.52%</b>	<b>1,280,033</b>	<b>30.30%</b>	<b>600,765</b>	<b>46.93%</b>
<b>EQUITY</b>						
Capital stock	750,000	17.75%	750,000	17.75%	-	0.00%
Retained earnings	1,593,530	37.72%	984,280	23.30%	609,250	61.90%
Remeasurement of retirement liability - net of tax	560	0.01%	(41)	0.00%	601	-1465.85%
<b>Total Equity</b>	<b>2,344,090</b>	<b>55.48%</b>	<b>1,734,239</b>	<b>41.05%</b>	<b>609,851</b>	<b>35.17%</b>
<b>Total Liabilities and Equity</b>	<b>4,224,888</b>	<b>100.00%</b>	<b>3,014,272</b>	<b>71.35%</b>	<b>1,210,616</b>	<b>40.16%</b>

### **Current Assets**

**Cash and cash equivalents** amounted to P82.6 million as at December 31, 2018 which decreased by 68.70% from December 31, 2017 balance. The decrease was due basically to the net effect of operating cash flows, collection of receivables and settlement of trade and non-trade payables during the year.

**Receivables** decreased by 19.43% from December 31, 2017 balance of P1.05 Billion to 2018 balance of P848 million due mainly to the net effect of collections made. Credit and collections team and its process has been strengthened to ensure timely collections from customers.

**Inventories** as at December 31, 2017 amounted to P1.26 billion. This value doubled as of December 31, 2018 mainly due to increase in level of supply in anticipation of increasing sales volume forecast.

**Prepayments and other current assets** increased by P313 million or 73.25% from December 2017 balance of P427 million. The increase was due to advance payments for excise tax and BIR seals for the current year's purchase orders which are to be shipped in 2019.

#### **Non-current Assets**

**Property and equipment-net** book values increased to P9.17 million from P5.10 million in December 2017 due to some acquisitions of Transportation and Delivery Equipment to support increasing volume of deliveries.

**Other non-current assets** increased minimally by 5.35% in 2018 mainly due to the payment of deposits on lease contract relative to the agreed rate escalations.

#### **Current Liabilities**

**Accounts payable and accrued expenses** pertains to the trade payable to suppliers and accruals of operating expenses. The increase of P398.6 million or 216.96% was due to the increased level of purchases on account. Purchases relatively increased due to the significant increase in sales forecast.

**Income tax payable** increased by 39.66% mainly due to additional income taxes incurred relative to the increase in net taxable income during the year 2018 versus 2017.

**Short-term loans payable** account decreased to P353 million as at December 31, 2018, due to net settlements made during the year amounting to P347 million.

**Dividends payable** increased by P100.0 million in 2018 due to dividend declarations in 2018.

**Due to related parties** increased by P425.50 million in 2018 mainly due to the additional advances availed during the year for working capital requirement.

### **Noncurrent Liabilities**

**Retirement benefit liability** amounted to P1.11 million as of December 31, 2018 which decreased by 28.19% from December 31, 2017 balance of P1.55 million due to changes in financial and demographic assumptions as set forth in the Actuarial Valuation Report dated December 31, 2018.

### **Equity**

**Retained earnings** increased by P609.2 million or 61.90% from P984.28 million in December 2017 due to profit realized by Montosco, net of cash dividend declaration of P100 million.

### **Sources and Uses of Cash**

A brief summary of cash flow movements is shown below:

<i>(In thousands)</i>	2018	2017
Net cash used in operating activities	(242,753)	(303,291)
Net cash used in investing activities	(6,804)	(2,402)
Net cash from financing activities	68,248	228,192
Net decrease in cash and cash equivalents	(181,309)	(77,501)

Net cash used in operating activities during the current year is basically attributable to the cash generated from operations and effect of the net settlement of trade payable accounts, purchase of inventory and other related current operating requirements.

On the other hand, net cash used in investing activities mainly pertains to the funds used for additional assets acquisition and capital expenditures.

Net cash from financing activities principally resulted from the net settlements of bank loans and additional advances availed during the year from stockholders.

Management believes that the current levels of internally generated funds from its operating activities and its present cash position enables Montosco to meet its immediate future liquidity requirements under its current level of business operations. With its strong current financial position, this can be augmented through availments from existing untapped banking and credit facilities as and when required.



## Material Events and Uncertainties

**Below is the discussion and analysis of material events and uncertainties known to management that would address the past and would have an impact on future operations:**

- (xxi) Seasonal aspects that had a material effect on the financial condition or results of Montosco's operations includes retail and liquor business which sales tend to peak during the gift-giving Christmas season;
- (xxii) There are no changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years;
- (xxiii) There are no material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period;
- (xxiv) There are no contingent liabilities or assets since the last statement of financial position period;
- (xxv) Sources of liquidity – Funding will be sourced from internally generated cash flow.
- (xxvi) There are no events that will trigger direct or contingent financial obligation that is material to Montosco, including any default or acceleration of an obligation;
- (xxvii) There are no material commitments for capital expenditures other than those performed in the ordinary course of trade or business;
- (xxviii) There are no known trends, events or uncertainties that have had or that are reasonably expected to have a material impact on the revenues or income from continuing operations;
- (xxix) There are no significant elements of income not arising from continuing operations;
- (xxx) Due to Montosco's sound financial condition, there are no foreseeable trends or events that may have material impact on its short-term or long-term liquidity.

# ANNEX "A-4"

## Management's Discussion and Analysis of Operations

The following discussion and analysis of Meritus's results of operations, financial condition and certain trends, risks and uncertainties that may affect Meritus's business should be read in conjunction with the annual audited financial statements of the company covering the years ended December 31, 2020 and 2019.

## Key Performance Indicators

The following financial ratios are considered by management as key performance indicators of Meritus' operating results as well as its financial condition:

- Return on investment (Net income/ Ave. stockholders' equity) - measures the profitability of stockholders' investment
- Profit margin (Net income/ Net revenue) - measures the net income produced for each peso of sales
- EBITDA to interest expense (EBITDA/ Interest expense) – measures the ability of Meritus to pay interest of its outstanding debts
- Current ratio (Current asset/ Current liabilities) - measures the short-term debt-paying ability of Meritus
- Asset turnover (Net revenue/ Average total assets) - measures how efficiently assets are used to generate revenues
- Asset to equity ratio (Assets/ Shareholders' equity) - indicates Meritus' leverage used to finance the firm
- Debt to equity ratio (Liabilities/ Shareholders' Equity) -measure of a Meritus' financial leverage

The table below shows the key performance indicators for the past two years:

<b>Performance Indicators</b>	<b>2020</b>	<b>2019</b>
Return on investment	<b>5.66%</b>	<b>5.57%</b>
Profit margin	<b>8.06%</b>	<b>6.47%</b>
EBITDA to interest expense	<b>18.57x</b>	<b>7.70x</b>
Current ratio	<b>6.85:1</b>	<b>4.27:1</b>
Asset turnover	<b>0.57:1</b>	<b>0.70:1</b>
Asset to equity	<b>1.17:1</b>	<b>1.31:1</b>
Debt to equity ratio	<b>0.17:1</b>	<b>0.30:1</b>

These financial ratios were calculated based on the audited financial statements of Meritus for the years ended December 31, 2020 and 2019.

### **Comparative Years 2020 and 2019**

The table below shows the results of operations of Meritus for the years ended December 31, 2020 and 2019:

<i>(In Thousands)</i>	FY2020	%	FY2019	%	Inc (Dec)	%
REVENUES	839,541	100.00%	958,829	100.00%	-119,288	-12.44%
COST OF SALES	682,656	81.31%	780,137	81.36%	-97,481	-12.50%
GROSS PROFIT	156,885	18.69%	178,691	18.64%	-21,806	-12.20%
OPERATING EXPENSES	50,022	5.96%	68,813	7.18%	-18,791	-27.31%
INCOME FROM OPERATIONS	106,863	12.73%	109,878	11.46%	-3,015	-2.74%
OTHER INCOME (CHARGES) - net	-10,322	-1.23%	-19,164	-2.00%	8,842	-46.14%
INCOME BEFORE INCOME TAX	96,541	11.50%	90,714	9.46%	5,827	6.42%
INCOME TAX EXPENSE	29,895	3.56%	28,663	2.99%	1,232	4.30%
NET INCOME FOR THE YEAR	66,646	7.94%	62,051	6.47%	4,595	7.41%

#### **Revenues**

Meritus posted a revenue of P839.54 million during the year ended December 31, 2020, which decreased by 12.44%. The decline is mainly attributable to the liquor bans imposed nationwide during the enhanced community quarantine lockdown that started on March 16, 2020 up to May 31, 2020 which was re-imposed in the NCR from August 4 to 18, 2020.

#### **Cost of Sales**

Cost of sales decreased by 12.50% which is parallel to the 12.44% decrease in revenues. There were no significant increase in cost, excise tax rates and other import charges in past year. However, excise tax rates significantly increased in 2020 but the effect on cost will be felt on 2021 since Meritus has significant inventory balance at the close of 2019.

#### **Operating Expenses**

Operating expenses decreased by 27.31% or P18.79 million from 2019 operating expense of P68.81 million due further decreased in marketing and merchandising costs. Promotional activities were limited due to pandemic. In the midst of the pandemic, Meritus ensures relevance through presence in social media and online market.

#### **Other Income and Charges**

Other Charges decreased by P8.84 million in 2020 compared to 2019 mainly due to decrease in interest expense as a result of settlement of bank loans. .

**Net Income**

Meritus realized net income of P66.646 million which grew by 7.40% is mainly due to strategic cost-saving measures implemented by the segment despite of the decline in sales.

**Statements of Financial Position**

**Shown below are the comparative financial position of Meritus:**

<i>(In Thousands)</i>	FY2020	%	FY2019	%	Inc (Dec)	%
<b>ASSETS</b>						
<b>Current Assets</b>						
Cash and cash equivalents	48,672	3.04%	44,277	2.96%	4,395	9.93%
Receivables - net	247,081	17.91%	379,028	25.37%	(131,947)	-34.81%
Inventories	1,053,904	74.14%	717,190	48.00%	336,714	46.95%
Prepayments and other current assets	67,473	4.75%	348,493	23.32%	(281,020)	-80.64%
<b>Total current assets</b>	<b>1,417,130</b>	<b>99.84%</b>	<b>1,488,988</b>	<b>99.66%</b>	<b>(71,858)</b>	<b>-4.83%</b>
<b>Noncurrent Assets</b>					-	
Property and equipment - net	495	0.03%	924	0.06%	(429)	-46.43%
Right-of-use assets		0.00%	2,459	0.16%	(2,459)	-100.00%
Deferred tax assets-net	209	0.06%	856	0.06%	(647)	-75.58%
Other non-current assets	903	0.06%	883	0.06%	20	2.27%
<b>Total noncurrent assets</b>	<b>1,607</b>	<b>0.16%</b>	<b>5,122</b>	<b>0.34%</b>	<b>(3,515)</b>	<b>-68.63%</b>
<b>Total Assets</b>	<b>1,418,737</b>	<b>100.00%</b>	<b>1,494,110</b>	<b>100.00%</b>	<b>(75,373)</b>	<b>-5.04%</b>
<b>LIABILITIES AND EQUITY</b>					-	
<b>Current Liabilities</b>					-	
Accounts payable and accrued expenses	147,472	10.37%	33,792	2.26%	113,680	336.41%
Income tax payable	17,354	1.34%	16,215	1.09%	1,139	7.02%
Short-term loans payable	42,000	2.95%	296,000	19.81%	(254,000)	-85.81%
Lease liability - current	-	0.00%	2,913	0.20%	-	-100.00%
<b>Total current liabilities</b>	<b>206,826</b>	<b>14.67%</b>	<b>348,920</b>	<b>23.35%</b>	<b>(142,094)</b>	<b>-40.72%</b>
<b>Noncurrent Liabilities</b>					-	
Retirement benefit liability	695	0.05%	760	0.05%	(65)	-8.55%
<b>Total noncurrent liabilities</b>	<b>695</b>	<b>0.05%</b>	<b>760</b>	<b>0.05%</b>	<b>(65)</b>	<b>-8.55%</b>
<b>Total Liabilities</b>	<b>207,521</b>	<b>14.73%</b>	<b>349,680</b>	<b>23.40%</b>	<b>(142,159)</b>	<b>-40.65%</b>
<b>EQUITY</b>						
Capital stock	750,000	52.76%	750,000	50.20%	-	0.00%
Retained earnings	460,252	32.45%	393,606	26.34%	66,646	16.93%
Remeasurement of retirement liability - net of tax	964	0.06%	824	0.06%	140	16.99%
<b>Total Equity</b>	<b>1,211,216</b>	<b>85.27%</b>	<b>1,144,430</b>	<b>76.60%</b>	<b>66,786</b>	<b>5.84%</b>
<b>Total Liabilities and Equity</b>	<b>1,418,737</b>	<b>100.00%</b>	<b>1,494,110</b>	<b>100.00%</b>	<b>(75,373)</b>	<b>-5.04%</b>

### **Current Assets**

**Cash and cash equivalents** amounted to P48.67 million as at December 31, 2020 with an increase of 9.93% from December 31, 2019 balance this was due basically to the net effect of the net operating cash flows, collection of receivables and settlement of loans, trade and non-trade payables during the year.

**Receivables** decreased by 34.81% from December 31, 2019 balance of P379.03 million to December 31, 2020 balance of P247.08 million due mainly to the net effect of collections made.

**Inventories** increased by 46.95% from 2019 balance of P717.19 million to 2020 balance of P1.05 Billion due to scaling down of orders from customers caused by enhanced community quarantines

**Prepayments and other current assets** decreased by P281.02 Million or 80.64% at the end of December 2020, mainly due to application of prepayments made for the purchases of inventories and corresponding taxes and duties.

#### **Non-current Assets**

**Property and equipment-net** book values decreased by P0.429 million and P0.972 in 2020 and 2019, due to depreciation charges.

**Right-of-use assets (ROU)** represents the values recognized from long-term lease contracts covering land and buildings utilized. Book values of ROU decreased by P2.46 million in 2020 due principally to depreciation recognized during the same year.

#### **Current Liabilities**

**Accounts payable and accrued expenses** pertains to the trade payable to suppliers. The increase of P113.68 million was primarily due to net settlements of trade and non-trade liabilities and additional accruals and purchases during the year.

**Income tax payable** increased by P1.14 million mainly due to additional income taxes incurred relative to the increase in net taxable income during the year 2020 in relation to the same period in 2019.

**Short-term loans payable** account decreased by P254 million in 2020 due to settlements made and availments of bank loans for working capital requirements.

#### **Noncurrent Liabilities**

**Retirement benefit liability** amounted to P0.695 million and P0.760 million as of December 31, 2020 and 2019, respectively. Minimal decrease was due to changes in assumptions as set forth in the Actuarial Valuation Report as of December 31, 2020

#### **Equity**

**Retirement benefits reserve** pertain to adjustments made in compliance with the accounting standard covering employee benefits. As at December 2020 and 2019, the account amounted to P0.964 million and P0.824 million, respectively.

**Retained earnings** increased by P66.65 million or 16.93% from P393.61 million in December 2019 to P460.25 million as at December 31, 2020 due to profit realized by Meritus.

## Sources and Uses of Cash

A brief summary of cash flow movements is shown below:

<i>(In thousands)</i>	2020	2019
Net cash from (used in) operating activities	267,984	(211,720)
Net cash used in investing activities	(66)	(43)
Net cash from (used in) financing activities	(263,523)	203,872
Net increase (decrease) in cash and cash equivalents	4,395	(7,891)

Net cash from and used in operating activities during the current year is basically attributable to the cash generated from operations and effect of the net settlement of trade payable accounts by the, purchase of inventory requirements and other related current operating.

On the other hand, net cash used in investing activities mainly pertains to the funds used for additional asset acquisitions.

Net cash from and used in financing activities principally resulted from the net settlements and availment of bank loans by Meritus during the year, repayment of principal and interest relating to lease liability.

Management believes that the current levels of internally generated funds from its operating activities and its present cash position enables Meritus to meet its immediate future liquidity requirements under its current work program commitments as well as other strategic investment opportunities. With its strong current financial position, this can be augmented through availments from existing untapped banking and credit facilities as and when required.

## Material Events and Uncertainties

Below is the discussion and analysis of material events and uncertainties known to management that would address the past and would have an impact on future operations:

- (i) Seasonal aspects that had a material effect on the financial condition or results of Meritus operations includes retail and liquor business which sales tend to peak during the gift-giving Christmas season;
- (ii) There are no changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years;
- (iii) There are no material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period;

- (iv) There are no contingent liabilities or assets since the last statement of financial position period;
- (v) Sources of liquidity – Funding will be sourced from internally generated cash flow.
- (vi) There are no events that will trigger direct or contingent financial obligation that is material to Meritus, including any default or acceleration of an obligation;
- (vii) There are no material commitments for capital expenditures other than those performed in the ordinary course of trade or business;
- (viii) There are no known trends, events or uncertainties that have had or that are reasonably expected to have a material impact on the revenues or income from continuing operations;
- (ix) There are no significant elements of income not arising from continuing operations;
- (x) Due to Meritus' sound financial condition, there are no foreseeable trends or events that may have material impact on its short-term or long-term liquidity.



## Management's Discussion and Analysis of Operations

The following discussion and analysis of Meritus's results of operations, financial condition and certain trends, risks and uncertainties that may affect Meritus's business should be read in conjunction with the annual audited financial statements of the company for years ended December 31, 2019 and 2018.

### Key Performance Indicators

The following financial ratios are considered by management as key performance indicators of Meritus' operating results as well as its financial condition:

- Return on investment (Net income/ Ave. stockholders' equity) - measures the profitability of stockholders' investment
- Profit margin (Net income/ Net revenue) - measures the net income produced for each peso of sales
- EBITDA to interest expense (EBITDA/ Interest expense) – measures the ability of Meritus to pay interest of its outstanding debts
- Current ratio (Current asset/ Current liabilities) - measures the short-term debt-paying ability of Meritus
- Asset turnover (Net revenue/ Average total assets) - measures how efficiently assets are used to generate revenues
- Asset to equity ratio (Assets/ Shareholders' equity) - indicates Meritus' leverage used to finance the firm
- Debt to equity ratio (Liabilities/ Shareholders' Equity) -measure of a Meritus' financial leverage

The table below shows the key performance indicators for the past two years:

<b>Performance Indicators</b>	<b>2019</b>	<b>2018</b>
Return on investment	<b>5.57%</b>	<b>5.37%</b>
Profit margin	<b>6.47%</b>	<b>6.20%</b>
EBITDA to interest expense	<b>7.70x</b>	<b>76.05x</b>
Current ratio	<b>4.27:1</b>	<b>8.60:1</b>
Asset turnover	<b>0.70:1</b>	<b>0.74:1</b>
Asset to equity	<b>1.31:1</b>	<b>1.13:1</b>
Debt to equity ratio	<b>0.30:1</b>	<b>0.13:1</b>

These financial ratios were calculated based on the audited financial statements of Meritus for the years ended December 31, 2019 and 2018.

### **Comparative Years 2019 and 2018**

The table below shows the results of operations of Meritus for the years ended December 31, 2019 and 2018:

<i>(In Thousands)</i>	<b>FY2019</b>	<b>%</b>	<b>FY2018</b>	<b>%</b>	<b>Inc (Dec)</b>	<b>%</b>
<b>REVENUES</b>	958,828	100.00%	923,272	100%	35,556	3.85%
<b>COST OF SALES</b>	780,137	81.36%	722,488	78.25%	57,649	7.98%
<b>GROSS PROFIT</b>	178,691	18.64%	200,784	21.75%	(22,093)	-11.00%
<b>OPERATING EXPENSES</b>	68,813	7.18%	116,290	12.60%	(47,477)	-40.83%
<b>INCOME FROM OPERATIONS</b>	109,878	11.46%	84,494	9.15%	25,384	30.04%
<b>OTHER INCOME (CHARGES) - net</b>	(19,164)	-2.00%	(1,344)	-0.15%	(17,820)	1325.89%
<b>INCOME BEFORE INCOME TAX</b>	90,714	9.46%	83,150	9.01%	7,564	9.10%
<b>INCOME TAX EXPENSE</b>	28,663	2.99%	25,892	2.80%	2,771	10.70%
<b>NET INCOME FOR THE YEAR</b>	62,051	6.47%	57,258	6.20%	4,793	8.37%

#### **Revenues**

Meritus' revenues in 2019 increased minimally by 3.85% or P35.36 million over its 2018 revenues of P923.27 million. The increase was the net effect of the growth of whisky category and the decline in brandy. Sales volume of brandy declined due to higher base in 2018 which includes pipeline orders of some of its distributors.

#### **Cost of Sales**

Cost of sales ratio to revenue during 2019 increased to 81.36% from 78.25% of 2018 due to sales mix. Increase in sales volume pertains to brand category with lower GP rates. There were no significant increase in cost, excise tax rates and other import charges in past year.

#### **Operating Expenses**

Operating expenses in 2019 significantly decreased by 40.83% or P47.48 million as compared to the operating expenses in 2018 amounting to P116.29 million due to the ended contract for advertising campaign thru Bus Ads. Also, sampling activities for 2019 were decreased, instead, it increased allocation for free goods and trade deals and continued. Cost-saving measure that lowers merchandising expenses was employed.

#### **Other Income and Charges**

Other Charges increased by P17.82 million in 2019 compared to 2017 of P1.34 million mainly due to interest expense incurred on bank loans. The foreign currency exchange losses also increased. Majority of Meritus foreign suppliers are in Prepayment terms, thus, favourable foreign exchange rates resulted in forex losses.

### Net Income

Meritus realized net income of P66.05 million which grew by 8.37% is mainly due to strategic cost-saving measures implemented by the company despite the very minimal increase in revenues

### Statements of Financial Position

Shown below are the comparative financial position of Meritus:

<i>(In Thousands)</i>	FY2019	%	FY2018	%	Inc (Dec)	%
<b>ASSETS</b>						
<b>Current Assets</b>						
Cash and cash equivalents	44,277	2.96%	52,180	4.25%	(7,903)	-15.15%
Receivables - net	379,028	25.37%	254,266	20.71%	124,762	49.07%
Inventories	717,190	48.00%	561,596	45.74%	155,594	27.71%
Prepayments and other current assets	348,493	23.32%	350,652	28.56%	(2,159)	-0.62%
<b>Total current assets</b>	<b>1,488,988</b>	<b>99.66%</b>	<b>1,218,695</b>	<b>99.27%</b>	<b>270,293</b>	<b>22.18%</b>
<b>Noncurrent Assets</b>						
Property and equipment - net	924	0.06%	1,896	0.15%	(972)	-51.27%
Right-of-use assets	2,459	0.16%	5,337	0.43%	(2,878)	-53.93%
Deferred tax assets-net	856	0.06%	876	0.07%	(20)	-2.28%
Other non-current assets	883	0.06%	873	0.07%	10	1.15%
<b>Total noncurrent assets</b>	<b>5,122</b>	<b>0.34%</b>	<b>8,983</b>	<b>0.73%</b>	<b>(3,861)</b>	<b>-42.98%</b>
<b>Total Assets</b>	<b>1,494,110</b>	<b>100.00%</b>	<b>1,227,678</b>	<b>100.00%</b>	<b>266,432</b>	<b>21.70%</b>
<b>LIABILITIES AND EQUITY</b>						
<b>Current Liabilities</b>						
Accounts payable and accrued expenses	33,792	2.26%	51,564	4.20%	(17,772)	-34.47%
Income tax payable	16,215	1.09%	12,018	0.98%	4,197	34.92%
Short-term loans payable	296,000	19.81%	0	0.00%	296,000	100.00%
Lease liability - current	2,913	0.20%	3,096	0.25%	(183)	-5.91%
<b>Total current liabilities</b>	<b>348,920</b>	<b>23.35%</b>	<b>141,679</b>	<b>11.54%</b>	<b>207,241</b>	<b>146.28%</b>
<b>Noncurrent Liabilities</b>						
Retirement benefit liability	760	0.05%	764	0.06%	(4)	-0.52%
<b>Total noncurrent liabilities</b>	<b>760</b>	<b>0.05%</b>	<b>3,678</b>	<b>0.30%</b>	<b>(2,918)</b>	<b>-79.34%</b>
<b>Total Liabilities</b>	<b>349,680</b>	<b>23.40%</b>	<b>145,357</b>	<b>11.84%</b>	<b>204,323</b>	<b>140.57%</b>
<b>EQUITY</b>						
Capital stock	750,000	50.20%	750,000	61.09%	0	0.00%
Retained earnings	393,606	26.34%	331,555	27.01%	62,051	18.72%
Remeasurement of retirement liability - net of tax	824	0.06%	765	0.06%	59	7.71%
<b>Total Equity</b>	<b>1,144,430</b>	<b>76.60%</b>	<b>1,082,321</b>	<b>88.16%</b>	<b>62,109</b>	<b>5.74%</b>
<b>Total Liabilities and Equity</b>	<b>1,494,110</b>	<b>100.00%</b>	<b>1,227,678</b>	<b>100.00%</b>	<b>266,432</b>	<b>21.70%</b>

### **Current Assets**

**Cash and cash equivalents** amounted to P44.28 million as at December 31, 2019 which decreased by 15.15% from December 31, 2018 balance. The decrease was due basically to the net effect of the net operating cash flows, proceeds from bank loans, collection of receivables, and settlement of trade and non-trade payables during the year.

**Receivables** increased by 49.07% in 2019 versus 2018 due to the effect of seasonality in customer's ordering, and extension of longer payment terms for purchases during the peak months of November and December.

**Inventories** increased by 27.71% in 2019 balance versus 2018 of P561.60 million was the result of increase in level of supply in anticipation of increasing sales volume forecast.

**Prepayments and other current assets** decreased minimally P2.16 million from the December 31, 2018 balance of P350.65 million, mainly due to the net effect of pre-payments for new orders and the application of prepayments made for the purchases of inventories and corresponding taxes and duties for shipments received in 2019.

### **Non-current Assets**

**Property and equipment-net** book values decreased by P0.972 in 2019 mainly due to depreciation charges. There were minimal capital expenditures in 2019.

**Right-of-use assets (ROU)** represents the values recognized from long-term lease contracts covering land and buildings utilized. Book values of ROU decreased by 53.93% or P2.87 million in 2019 due principally to depreciation recognized during the same year.

### **Current Liabilities**

**Accounts payable and accrued expenses** pertains to the trade payable to suppliers. The decrease of P17.77 million in 2019 were primarily due to net settlements of trade and non-trade liabilities and additional accruals and purchases during the year.

**Income tax payable** increased by P4.19 million mainly due to additional income taxes incurred relative to the increase in net taxable income during the year 2019. The timing of collection of creditable withholding taxes from customers also affected the increase.

**Short-term loans payable** account balance as of December 31, 2019 amounted to P296 million availments of bank loans for working capital requirements.

### **Noncurrent Liabilities**

**Retirement benefit liability** amounted to P0.760 million and P0.764 million as of December 31, 2019 and 2018, respectively. The minimal decrease pertains to the effect of changes in assumptions as of the December 31, 2019 Actuarial Valuation.

### **Equity**

**Retained earnings** increased by P62.05 million or 18.72% from P331.56 million in December 2018 to P393.61 million as at December 31, 2019 due to profit realized by Meritus in 2019.

### **Sources and Uses of Cash**

A brief summary of cash flow movements is shown below:

<i>(In thousands)</i>	2019	2018
Net cash from (used in) operating activities	(211,720)	101,657
Net cash used in investing activities	(43)	(57)
Net cash from (used in) financing activities	203,872	(124,083)
Net decrease in cash and cash equivalents	(7,891)	(22,483)

Net cash from and used in operating activities during the current year is basically attributable to the cash generated from operations and effect of the net settlement of trade payable accounts, purchase of inventory requirements and other related current operating.

On the other hand, net cash used in investing activities mainly pertains to the funds used for additional asset acquisitions.

Net cash from and used in financing activities principally resulted from the net settlements and availment of bank loans by Meritus during the year, repayment of principal and interest relating to lease liability.

Management believes that the current levels of internally generated funds from its operating activities and its present cash position enables Meritus to meet its immediate future liquidity requirements under its current work program commitments as well as other strategic investment opportunities. With its strong current financial position, this can be augmented through availments from existing untapped banking and credit facilities as and when required.

### **Material Events and Uncertainties**

Below is the discussion and analysis of material events and uncertainties known to management that would address the past and would have an impact on future operations:

- (xi) Seasonal aspects that had a material effect on the financial condition or results of Meritus operations includes retail and liquor business which sales tend to peak during the gift-giving Christmas season;

- (xii) There are no changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years;
- (xiii) There are no material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period;
- (xiv) There are no contingent liabilities or assets since the last statement of financial position period;
- (xv) Sources of liquidity – Funding will be sourced from internally generated cash flow.
- (xvi) There are no events that will trigger direct or contingent financial obligation that is material to Meritus, including any default or acceleration of an obligation;
- (xvii) There are no material commitments for capital expenditures other than those performed in the ordinary course of trade or business;
- (xviii) There are no known trends, events or uncertainties that have had or that are reasonably expected to have a material impact on the revenues or income from continuing operations;
- (xix) There are no significant elements of income not arising from continuing operations;
- (xx) Due to Meritus' sound financial condition, there are no foreseeable trends or events that may have material impact on its short-term or long-term liquidity.

## Management's Discussion and Analysis of Operations

The following discussion and analysis of Meritus' s results of operations, financial condition and certain trends, risks and uncertainties that may affect Meritus' s business should be read in conjunction with the annual audited financial statements of the company for the years ended December 31, 2018 and 2017.

### Key Performance Indicators

The following financial ratios are considered by management as key performance indicators of Meritus' operating results as well as its financial condition:

- Return on investment (Net income/ Ave. stockholders' equity) - measures the profitability of stockholders' investment
- Profit margin (Net income/ Net revenue) - measures the net income produced for each peso of sales
- EBITDA to interest expense (EBITDA/ Interest expense) – measures the ability of Meritus to pay interest of its outstanding debts
- Current ratio (Current asset/ Current liabilities) - measures the short-term debt-paying ability of Meritus
- Asset turnover (Net revenue/ Average total assets) - measures how efficiently assets are used to generate revenues
- Asset to equity ratio (Assets/ Shareholders' equity) - indicates Meritus' leverage used to finance the firm
- Debt to equity ratio (Liabilities/ Shareholders' Equity) -measure of a Meritus' financial leverage

The table below shows the key performance indicators for the past two years:

<b>Performance Indicators</b>	<b>2018</b>	<b>2017</b>
Return on investment	<b>5.37%</b>	<b>3.77%</b>
Profit margin	<b>6.20%</b>	<b>4.72%</b>
EBITDA to interest expense	<b>76.05x</b>	<b>91.01x</b>
Current ratio	<b>8.60:1</b>	<b>5.52:1</b>
Asset turnover	<b>0.74:1</b>	<b>0.68:1</b>
Asset to equity	<b>1.13:1</b>	<b>1.22:1</b>
Debt to equity ratio	<b>0.13:1</b>	<b>0.22:1</b>



These financial ratios were calculated based on the audited financial statements of Meritus for the years ended December 31, 2018 and 2017:

### **Comparative Years 2018 and 2017**

The table below shows the results of operations of Meritus for the years ended December 31, 2018 and 2017:

<i>(In Thousands)</i>	<b>FY2018</b>	<b>%</b>	<b>FY2017</b>	<b>%</b>	<i>Inc (Dec)</i>	<b>%</b>
<b>REVENUES</b>	923,272	100.00%	842,384	100.00%	80,888	9.60%
<b>COST OF SALES</b>	722,488	78.25%	623,615	74.03%	98,873	15.85%
<b>GROSS PROFIT</b>	200,784	21.75%	218,769	25.97%	(17,985)	-8.22%
<b>OPERATING EXPENSES</b>	116,610	12.60%	155,929	18.51%	(39,319)	-25.22%
<b>INCOME FROM OPERATIONS</b>	84,174	9.15%	62,840	7.46%	21,334	33.95%
<b>OTHER INCOME (CHARGES) - net</b>	(989)	-0.15%	(4,738)	-0.56%	3,749	-79.13%
<b>INCOME BEFORE INCOME TAX</b>	83,185	9.01%	58,102	6.90%	25,083	43.17%
<b>INCOME TAX EXPENSE</b>	25,903	2.80%	18,348	2.18%	7,555	41.18%
<b>NET INCOME FOR THE YEAR</b>	57,282	6.20%	39,754	4.72%	17,528	44.09%

#### **Revenues**

Meritus posted a revenue of P923.27 million during the year ended December 31, 2018, which increased by 9.60% from 2017 revenues of P842.38 million. The increase was mainly driven by its brandy portfolio which includes Fundador and Alhambra Light.

#### **Cost of Sales**

Cost of sales ratio to revenue during 2018 increased to 78.25% from 74.03% of 2017 due to sales mix. There were no significant increase in cost, excise tax rates and other import charges in past year. The minimal increase in customers' conditional discounts in 2018 also affected the cost of sales ratio to revenues.

#### **Operating Expenses**

Operating expenses in 2018 significantly decreased by 25.22% or P39.32 million as compared to the operating expenses in 2017 amounting to P155.30 million due to the decreased in advertising campaigns such as Bus Ads and Jeepney Toppers. Meritus, instead, increased its sampling activities and strengthened merchandising to ensure presence in the market.

#### **Other Income and Charges**

Other Charges increased by 79.13% in 2018 compared to 2017 mainly due to foreign currency adjustments. Majority of Meritus foreign suppliers are in Prepayment terms, thus, favourable foreign exchange rates resulted in forex losses.



### Net Income

Meritus realized net income of P57.22 million which grew by 44.09% from its net income of P39.75 million mainly due to strategic cost-saving measures implemented by the segment despite of the lower growth in revenues.

### Statements of Financial Position

Shown below are the comparative financial position of Meritus:

<i>(In Thousands)</i>	FY2018	%	FY2017	%	Inc (Dec)	%
<b>ASSETS</b>						
<b>Current Assets</b>						
Cash and cash equivalents	52,180	4.27%	74,641	5.82%	-22,461	-30.09%
Receivables - net	254,267	20.80%	336,739	26.25%	-82,472	-24.49%
Inventories	561,596	45.95%	624,567	48.68%	-62,971	-10.08%
Prepayments and other current assets	350,652	28.69%	242,203	18.88%	108,449	44.78%
<b>Total current assets</b>	<b>1,218,695</b>	<b>99.71%</b>	<b>1,278,150</b>	<b>99.62%</b>	<b>-59,455</b>	<b>-4.65%</b>
<b>Noncurrent Assets</b>						
Property and equipment - net	1,896	0.16%	3,021	0.24%	-1,125	-37.24%
Deferred tax assets-net	783	0.06%	999	0.08%	-216	-21.62%
Other non-current assets	874	0.07%	842	0.07%	32	3.80%
<b>Total noncurrent assets</b>	<b>3,553</b>	<b>0.29%</b>	<b>4,862</b>	<b>0.38%</b>	<b>-1,309</b>	<b>-26.92%</b>
<b>Total Assets</b>	<b>1,222,248</b>	<b>100.00%</b>	<b>1,283,012</b>	<b>100.00%</b>	<b>-60,764</b>	<b>-4.74%</b>
<b>LIABILITIES AND EQUITY</b>						
<b>Current Liabilities</b>						
Accounts payable and accrued expenses	51,565	4.22%	54,514	4.25%	-2,949	-5.41%
Income tax payable	12,018	0.98%	7,051	0.55%	4,967	70.44%
Short-term loans payable		0.00%	100,000	7.79%	-100,000	-100.00%
Advances from Parent Company		0.00%	20,000	1.56%	-20,000	-100.00%
Dividends payable	75,000	6.14%	50,000	3.90%	25,000	50.00%
<b>Total current liabilities</b>	<b>138,583</b>	<b>11.34%</b>	<b>231,565</b>	<b>18.05%</b>	<b>-92,982</b>	<b>-40.15%</b>
<b>Noncurrent Liabilities</b>						
Retirement benefit liability	765	0.06%	1,492	0.12%	-727	-48.73%
Accrued rent expense	361	0.03%	361	0.03%	0	0.00%
<b>Total noncurrent liabilities</b>	<b>1,126</b>	<b>0.09%</b>	<b>1,853</b>	<b>0.14%</b>	<b>-727</b>	<b>-39.23%</b>
<b>Total Liabilities</b>	<b>139,709</b>	<b>11.43%</b>	<b>233,418</b>	<b>18.19%</b>	<b>-93,709</b>	<b>-40.15%</b>
<b>EQUITY</b>						
Capital stock	750,000	61.36%	750,000	58.46%	0	0.00%
Retained earnings	331,774	27.14%	299,491	23.34%	32,283	10.78%
Remeasurement of retirement liability - net of tax	765	0.06%	103	0.01%	662	642.72%
<b>Total Equity</b>	<b>1,082,539</b>	<b>88.57%</b>	<b>1,049,594</b>	<b>81.81%</b>	<b>32,945</b>	<b>3.14%</b>
<b>Total Liabilities and Equity</b>	<b>1,222,248</b>	<b>100.00%</b>	<b>1,283,012</b>	<b>100.00%</b>	<b>-60,764</b>	<b>-4.74%</b>

### **Current Assets**

**Cash and cash equivalents** amounted to P52.18% million as at December 31, 2018 with a decrease of 30.09% from December 31, 2017 balance of P74.64 million. The decrease is due basically to the net effect of the net operating cash flows, payment of loans, and collection of receivables and settlement of trade and non-trade payables during the year.

**Receivables** decreased by 24.49% from December 31, 2017 balance of P336.74 million to December 31, 2018 balance of P254.27 million due mainly to the net effect of collections made. Credit and collection team continuously strengthen its process to ensure timely collection of receivables.

**Inventories** decreased minimally by 10.08% from 2017 balance of P624.57 million to 2018 balance of P561.60 million due to timing of arrivals of orders.

**Prepayments and other current assets** increased by 44.78% or P108.45 million as of December 31, 2018, mainly due to the net effect of prepayments to suppliers for new orders and application of prepayments made for the purchases of inventories and its corresponding taxes and duties.

### **Non-current Assets**

**Property and equipment-net** book values decreased by P1.13 million in 2018 mainly due to depreciation charges of the current year. There were only minimal acquisitions of office equipment and furnitures in 2018.

### **Current Liabilities**

**Accounts payable and accrued expenses** pertains to the trade payable to suppliers and nontrade payable for operating costs. The account decreased minimally by P2.95 million as of December 31, 2018 from the balance of P54.5 million as of December 31, 2017 primarily due to net settlements of trade and non-trade liabilities and purchases during the year. The decrease in operating expenses also lowered the balance of nontrade payables in 2018

**Income tax payable** increased by 70.44% or P4.97 million mainly due to additional income taxes incurred relative to the increase in net taxable income during the year 2018.

**Short-term loans payable** account decreased by P100 million in 2018 due to full payment made

### **Noncurrent Liabilities**

**Retirement benefit liability** amounted to P0.76 million and P1.50 million as of December 31, 2018 and 2017, respectively. The decrease was due to changes in financial and demographic assumptions as set forth in the Actuarial Valuation Report dated December 31, 2018.

### **Equity**

**Retained earnings** increased by P32.28 million or 10.78% due to profit realized by Meritus net of the cash dividends declared amounting to P25.0 million.

## Sources and Uses of Cash

A brief summary of cash flow movements is shown below:

<i>(In thousands)</i>	2018	2017
Net cash from (used in) operating activities	98,460	(84,618)
Net cash used in investing activities	(57)	(705)
Net cash from (used in) financing activities	(120,886)	69,370
Net decrease in cash and cash equivalents	(22,483)	(15,953)

Net cash from and used in operating activities during the current year is basically attributable to the cash generated from operations and effect of the net settlement of trade payable accounts by the, purchase of inventory requirements and other related current operating.

On the other hand, net cash used in investing activities mainly pertains to the funds used for additional asset acquisitions.

Net cash from and used in financing activities principally resulted from the net settlements and availment of bank loans by Meritus during the year.

Management believes that the current levels of internally generated funds from its operating activities and its present cash position enables Meritus to meet its immediate future liquidity requirements under its current work program commitments as well as other strategic investment opportunities. With its strong current financial position, this can be augmented through availments from existing untapped banking and credit facilities as and when required.

## Material Events and Uncertainties

Below is the discussion and analysis of material events and uncertainties known to management that would address the past and would have an impact on future operations:

- (xxi) Seasonal aspects that had a material effect on the financial condition or results of Meritus operations includes retail and liquor business which sales tend to peak during the gift-giving Christmas season;
- (xxii) There are no changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years;
- (xxiii) There are no material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period;
- (xxiv) There are no contingent liabilities or assets since the last statement of financial position period;

- (xxv) Sources of liquidity – Funding will be sourced from internally generated cash flow.
- (xxvi) There are no events that will trigger direct or contingent financial obligation that is material to Meritus, including any default or acceleration of an obligation;
- (xxvii) There are no material commitments for capital expenditures other than those performed in the ordinary course of trade or business;
- (xxviii) There are no known trends, events or uncertainties that have had or that are reasonably expected to have a material impact on the revenues or income from continuing operations;
- (xxix) There are no significant elements of income not arising from continuing operations;
- (xxx) Due to Meritus' sound financial condition, there are no foreseeable trends or events that may have material impact on its short-term or long-term liquidity.

## Management's Discussion and Analysis of Financial Performance & Financial Position

The following discussion and analysis of Premier's results of operations, financial condition and certain trends, risks and uncertainties that may affect Premier's business should be read in conjunction with the annual audited financial statements of the company for the years ended December 31, 2020 and 2019.

### Key Performance Indicators

The following financial ratios are considered by management as key performance indicators of Premier's operating results as well as its financial condition:

- Return on investment (Net income/ Ave. stockholders' equity) - measures the profitability of stockholders' investment
- Profit margin (Net income/ Net revenue) - measures the net income produced for each peso of sales
- EBITDA to interest expense (EBITDA/ Interest expense) – measures the ability of Premier to pay interest of its outstanding debts
- Current ratio (Current asset/ Current liabilities) - measures the short-term debt-paying ability of Premier
- Asset turnover (Net revenue/ Average total assets) - measures how efficiently assets are used to generate revenues
- Asset to equity ratio (Assets/ Shareholders' equity) - indicates Premier's leverage used to finance the firm
- Debt to equity ratio (Liabilities/ Shareholders' Equity) -measure of a Premier's financial leverage

The table below shows the key performance indicators for the past two years:

<b>Performance Indicators</b>	<b>2020</b>	<b>2019</b>
Return on investment	<b>4.44%</b>	<b>5.13%</b>
Profit margin	<b>3.50%</b>	<b>2.93%</b>
EBITDA to interest expense	<b>9.56x</b>	<b>4.37x</b>
Current ratio	<b>2.86:1</b>	<b>2.07:1</b>
Asset turnover	<b>0.75:1</b>	<b>0.89:1</b>
Asset to equity	<b>1.55:1</b>	<b>1.82:1</b>
Debt to equity ratio	<b>0.55:1</b>	<b>0.82:1</b>

These financial ratios were calculated based on the audited financial statements of Premier for the years ended December 31, 2020 and 2019

## **Analysis of Financial Performance**

### **Comparative Years 2020 and 2019**

The table below shows the results of operations of Premier for the years ended December 31, 2020 and 2019:

<i>(In Thousands)</i>	FY2020	%	FY2019	%	<i>Inc(Dec)</i>	%
REVENUES	1,221,017	100.00%	1,603,044	100.00%	(382,027)	-23.83%
COST OF SALES	985,374	80.70%	1,348,454	84.12%	(363,080)	-26.93%
GROSS PROFIT	235,643	19.30%	254,590	15.88%	(18,947)	-7.44%
OPERATING EXPENSES	127,052	10.40%	158,406	9.88%	(31,354)	-19.79%
INCOME FROM OPERATIONS	108,591	8.89%	96,184	6.00%	12,407	12.90%
OTHER INCOME (CHARGES) - net	-35,826	-2.93%	-29,337	-1.83%	(6,489)	22.12%
INCOME BEFORE INCOME TAX	72,765	5.96%	66,847	4.17%	5,918	8.85%
INCOME TAX EXPENSE	30,030	2.46%	19,808	1.24%	10,222	51.61%
NET INCOME FOR THE YEAR	42,735	3.50%	47,039	2.93%	(4,304)	-9.15%

### **Revenues**

Premier posted a revenue of P1.22 Billion during the year ended December 31, 2020, which decreased by 23.83% from its 2019 level. The decline is mainly attributable to the impact of Covid-19 mobility restrictions particularly the liquor bans imposed nationwide during the enhanced community quarantine lockdown that started on March 16, 2020 up to May 31, 2020 which was re-imposed in the NCR from August 4 to 18, 2020

### **Cost of Sales**

Cost of sales rate has improved in 2020 with a rate of 80.70% compared to 84.12% in 2019. This significant improvement was due to the effect of price increase and the decrease in discounts to customers.

### **Operating Expenses**

Operating expenses decreased by 19.79% as compared to 2019 due mainly the decrease in revenues and cost saving measures in response to the decline in sales caused by the pandemic. Premier strengthened its position and ensures relevance through presence in social media and online market.

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

Other income (charges) increased by 22.12% from its 2019 amount of P29.34 million basically due to net effect of interest income on time deposits and interest paid loans and advances. Share in loss on investment to Pernod in 2020 amounted to P24.83 million.



## Net Income

During the year ended December 31, 2020, Premier realized net income of P42.73 million which decreased by 9.15% mainly due to the decline in sales as a result of community lockdowns during the year.

## Analysis of Financial Position

Shown below are the comparative financial position of Premier as of December 31, 2020 and 2019:

<i>(In Thousands)</i>	FY2020	%	FY2019	%	Inc (Dec)	%
<b>ASSETS</b>						
<b>Current Assets</b>						
Cash and cash equivalents	308,362	20.22%	229,951	13.73%	78,411	34.10%
Receivables – net	311,201	20.40%	498,148	29.00%	(186,947)	-37.53%
Inventories	673,735	44.17%	599,727	34.92%	74,008	12.34%
Prepayments and other current assets	29,848	1.96%	247,347	14.40%	(217,499)	-87.93%
<b>Total current assets</b>	<b>1,323,146</b>	<b>86.75%</b>	<b>1,575,173</b>	<b>92.05%</b>	<b>(252,027)</b>	<b>-16.00%</b>
<b>Noncurrent Assets</b>						
Property and equipment – net	12,653	0.83%	6,541	0.38%	6,112	93.44%
Right-of-use assets	85,718	5.62%	4,851	0.28%	80,867	1667.02%
Investments	93,361	6.12%	118,194	6.88%	(24,833)	-21.01%
Deferred tax assets-net	4,554	0.30%	3,705	0.22%	849	22.91%
Other non-current assets	5,793	0.38%	3,203	0.19%	2,590	80.86%
<b>Total noncurrent assets</b>	<b>202,079</b>	<b>13.25%</b>	<b>136,494</b>	<b>7.95%</b>	<b>65,585</b>	<b>48.05%</b>
<b>Total Assets</b>	<b>1,525,225</b>	<b>100.00%</b>	<b>1,711,667</b>	<b>100.00%</b>	<b>(186,442)</b>	<b>-10.89%</b>
<b>LIABILITIES AND EQUITY</b>						
<b>Current Liabilities</b>						
Accounts payable and accrued expenses	112,900	7.40%	135,073	7.89%	(22,173)	-16.42%
Income tax payable	15,399	1.01%	212	0.01%	15,187	7163.68%
Short-term loans payable		0.00%	313,000	18.29%	(313,000)	-100.00%
Dividends payable	100,000	6.56%	100,000	5.84%	-	0.00%
Lease liability	29,032	1.90%	5,425	0.32%	23,607	435.15%
Due to related parties	192,700	12.63%	192,852	11.27%	(152)	-0.08%
Other current liabilities	11,975	0.79%	13,901	0.81%	(1,926)	-13.86%
<b>Total current liabilities</b>	<b>462,006</b>	<b>30.29%</b>	<b>760,463</b>	<b>44.43%</b>	<b>(298,457)</b>	<b>-39.25%</b>
<b>Noncurrent Liabilities</b>						
Retirement benefit liability	11,564	0.76%	9,204	0.54%	2,360	25.64%
Lease liability-net of current portion	68,683	4.50%	1,268	0.07%	67,415	5316.64%
<b>Total noncurrent liabilities</b>	<b>80,247</b>	<b>5.26%</b>	<b>10,472</b>	<b>0.61%</b>	<b>69,775</b>	<b>666.30%</b>
<b>Total Liabilities</b>	<b>542,253</b>	<b>35.55%</b>	<b>770,935</b>	<b>45.04%</b>	<b>(228,682)</b>	<b>-29.66%</b>
<b>EQUITY</b>						
Capital stock	150,000	9.83%	150,000	8.76%	-	0.00%
Additional paid-in capital	1,500	0.10%	1,500	0.09%	-	0.00%
Remeasurement of retirement liability - net of tax	4,426	0.29%	4,921	0.29%	(495)	-10.06%
Retained earnings	827,046	54.23%	784,311	45.82%	42,735	5.45%
<b>Total Equity</b>	<b>982,972</b>	<b>64.45%</b>	<b>940,732</b>	<b>54.96%</b>	<b>42,240</b>	<b>4.49%</b>
<b>Total Liabilities and Equity</b>	<b>1,525,225</b>	<b>100.00%</b>	<b>1,711,667</b>	<b>100.00%</b>	<b>(186,442)</b>	<b>-10.89%</b>

### Current Assets

**Cash and cash equivalents** amounted to P308.36 million, P229.95 million as at December 31, 2020 and December 31, respectively. The increase was due basically to the net effect of the net operating cash flows, collection of receivables and settlement of trade and non-trade payables during the year.

**Receivables'** decreased by 37.53% from December 31, 2019 balance of P498.15 million to 2020 balance of P311.20 million due mainly to the net effect of collections made. Collection efforts has been strengthened to ensure timely collections from customers.

**Inventories'** increased by 12.24% from December 31, 2019 balance of P599.72 million to 2020 balance of P673.74 million due principally to lower sales during the year particularly the corresponding scaling down of orders from customers caused by enhanced community quarantine.

**Prepayments and other current assets'** the decreased by 87.93% from December 31, 2019 balance of P247.34 million to 2020 balance of P29.85 million was mainly due to minimal advances to suppliers made during and application of previous advances to purchases for current years

### Non-current Assets

**Property and equipment-net** book value as of December 31, 2020 increased by 93.44% from its December 31, 2019 balance due to some capital expenditures for leasehold.

**Right-of-use assets (ROU)** represents the values recognized from long-term lease contracts covering land and buildings utilized. Significant increase in book value of ROU as of December 31, 2020 amounting to P80.867 was due principally to additional ROU assets recognized from new lease contracts entered into, net of depreciation recognized during the same year.

**Investments** decreased by P24.83 million or 21.01% in 2020 mainly due to the recognition of share in the loss of investee.

**Other non-current assets** increased by P2.59 million in mainly due to the payment of deposits on lease.

### Current Liabilities

**Accounts payable and accrued expenses** pertains to the trade payable to suppliers. In December 31, 2020, balance of P112.90 million decreased by 16.42% from December 31, 2019 balance of P135.07 million were primarily due to settlements of trade and non-trade liabilities

**Income tax payable's** significant increase by P15.18 million mainly due to higher income taxes incurred relative to the increase in net taxable income during the year.



**Short-term loans payable** decreased in 2020 due to full settlements made.

**Lease liabilities due within one-year** account increased by P23.607 million from P5.42 million in December 2019 to P29.032million in December 2020 due principally to the net effect of additional leases, interest expense amortization recognized and lease payments made during the current period pertaining current portions.

#### **Noncurrent Liabilities**

**Lease liabilities net of current portion** represents the values recognized from long-term lease contracts covering land and buildings utilized by Premier. Account balance account increased by P67.41 million from P5.42 million in December 2019 to P68.68 million in December 2020 due principally to the net effect of additional leases, and the reclassification to current portion for the interest expense amortization recognized and lease payments made during the current period pertaining current portions

**Retirement benefit liability** increased to P11.56 million in 2020. The increase of P2.36 million from the 2019 balance was due to changes in financial and demographic assumptions as set forth in the Actuarial Valuation Report dated December 31, 2020.

#### **Equity**

**Retirement benefits reserve** pertain to adjustments made in compliance with the accounting standard covering employee benefits. As at December 2020 and 2019, the account balances amounted to P4.43 million and P4.92 million and respectively.

**Retained earnings** increased in December 2020 by P42.74 million or 5.45% from P784.31 million to P827.05 million due to profit realized by the company.

#### **Sources and Uses of Cash**

A brief summary of cash flow movements is shown below:

<i>(In thousands)</i>	2020	2019
Net cash generated from operating activities	417,947	415,748
Net cash used in investing activities	(10,168)	(128,770)
Net cash used in financing activities	(329,368)	(187,949)
Net increase in cash and cash equivalents	78,411	99,029

Net cash generated from operating activities is basically attributable to the cash generated from operations and effect of the net settlement of trade payable accounts by the purchase of inventory requirements and other related current operating items.

On the other hand, net cash used in investing activities mainly pertains to the funds used for additional assets acquisition and some capital expenditures.

Net cash generated from and used in financing activities principally resulted from the net settlements and availment of bank loans for working capital requirements.

Management believes that the current levels of internally generated funds from its operating activities and its present cash position enables Premier to meet its immediate future liquidity requirements under its current level of business. With its strong current financial position, this can be augmented through availments from existing untapped banking and credit facilities as and when required.

### **Material Events and Uncertainties**

Below is the discussion and analysis of material events and uncertainties known to management that would address the past and would have an impact on future operations:

- (i) Seasonal aspects that had a material effect on the financial condition or results of Premier's operations includes retail and liquor business which sales tend to peak during the gift-giving Christmas season;
- (ii) There are no changes in estimates of amounts reported in the current financial year or changes in estimates of amounts reported in prior financial years;
- (iii) There are no material events subsequent to the end of the period that have not been reflected in the financial statements;
- (iv) There are no contingent liabilities or assets since the last statement of financial position period;
- (v) Sources of liquidity – Funding will be sourced from internally generated cash flows;
- (vi) There are no events that will trigger direct or contingent financial obligation that is material to Premier, including any default or acceleration of an obligation;
- (vii) There are no material commitments for capital expenditures other than those performed in the ordinary course of trade or business;
- (viii) There are no known trends, events or uncertainties that have had or that are reasonably expected to have a material impact on the revenues or income from continuing operations;
- (ix) There are no significant elements of income not arising from continuing operations;

Due to Premier's sound financial condition, there are no foreseeable trends or events that may have material negative impact on its short-term or long-term liquidity.

## Management's Discussion and Analysis of Financial Performance & Financial Position

The following discussion and analysis of Premier's results of operations, financial condition and certain trends, risks and uncertainties that may affect Premier's business should be read in conjunction with the annual audited financial statements of the company for the years ended December 31, 2019 and 2018.

### Key Performance Indicators

The following financial ratios are considered by management as key performance indicators of Premier's operating results as well as its financial condition:

- Return on investment (Net income/ Ave. stockholders' equity) - measures the profitability of stockholders' investment
- Profit margin (Net income/ Net revenue) - measures the net income produced for each peso of sales
- EBITDA to interest expense (EBITDA/ Interest expense) – measures the ability of Premier to pay interest of its outstanding debts
- Current ratio (Current asset/ Current liabilities) - measures the short-term debt-paying ability of Premier
- Asset turnover (Net revenue/ Average total assets) - measures how efficiently assets are used to generate revenues
- Asset to equity ratio (Assets/ Shareholders' equity) - indicates Premier's leverage used to finance the firm
- Debt to equity ratio (Liabilities/ Shareholders' Equity) -measure of a Premier's financial leverage

The table below shows the key performance indicators for the past two years:

<b>Performance Indicators</b>	<b>2019</b>	<b>2018</b>
Return on investment	<b>5.13%</b>	<b>6.03%</b>
Profit margin	<b>2.93%</b>	<b>2.20%</b>
EBITDA to interest expense	<b>4.37x</b>	<b>4.89x</b>
Current ratio	<b>2.07:1</b>	<b>1.91:1</b>
Asset turnover	<b>0.89:1</b>	<b>1.80:1</b>
Asset to equity	<b>1.82:1</b>	<b>2.10:1</b>
Debt to equity ratio	<b>0.82:1</b>	<b>1.10:1</b>

These financial ratios were calculated based on the audited financial statements of Premier for the years ended December 31, 2019 and 2018:

### **Analysis of Financial Performance**

#### **Comparative Years 2019 and 2018**

The table below shows the results of operations of Premier for the years ended December 31, 2019 and 2018:

<i>(In Thousands)</i>	<b>FY2019</b>	<b>%</b>	<b>FY2018</b>	<b>%</b>	<b>Inc (Dec)</b>	<b>%</b>
<b>REVENUES</b>	<b>1,603,044</b>	<b>100.00%</b>	<b>2,368,581</b>	<b>100.00%</b>	<b>(765,537)</b>	<b>-32.32%</b>
<b>COST OF SALES</b>	<b>1,348,454</b>	<b>84.12%</b>	<b>2,011,405</b>	<b>84.92%</b>	<b>(662,951)</b>	<b>-32.96%</b>
<b>GROSS PROFIT</b>	<b>254,590</b>	<b>15.88%</b>	<b>357,176</b>	<b>15.08%</b>	<b>(102,586)</b>	<b>-28.72%</b>
<b>OPERATING EXPENSES</b>	<b>158,406</b>	<b>9.88%</b>	<b>270,211</b>	<b>11.41%</b>	<b>(111,805)</b>	<b>-41.38%</b>
<b>INCOME FROM OPERATIONS</b>	<b>96,184</b>	<b>6.00%</b>	<b>86,965</b>	<b>3.67%</b>	<b>9,219</b>	<b>10.60%</b>
<b>SHARE IN NET LOSS ON INVESTMENT IN AN ASSOCIATE</b>	<b>-8,763</b>	<b>-0.55%</b>			<b>(8,763)</b>	<b>#DIV/0!</b>
<b>OTHER INCOME (CHARGES) - net</b>	<b>-20,574</b>	<b>-1.83%</b>	<b>(20,627)</b>	<b>-0.87%</b>	<b>53</b>	<b>-0.26%</b>
<b>INCOME BEFORE INCOME TAX</b>	<b>66,847</b>	<b>4.17%</b>	<b>66,338</b>	<b>2.80%</b>	<b>509</b>	<b>0.77%</b>
<b>INCOME TAX EXPENSE</b>	<b>19,808</b>	<b>1.24%</b>	<b>14,135</b>	<b>0.60%</b>	<b>5,673</b>	<b>40.13%</b>
<b>NET INCOME FOR THE YEAR</b>	<b>47,039</b>	<b>2.93%</b>	<b>52,203</b>	<b>2.20%</b>	<b>(5,164)</b>	<b>-9.89%</b>

#### **Revenues**

Premier posted a revenue of P1.603 Billion during the year ended December 31, 2019, which decreased by 32.32. % versus 2018. The decline is mainly attributable to the transfer of distribution of Pernod brand to a separate joint venture company, Pernod Ricards Philippines, Inc. (Pernod), wherein Premier has a 30% equity interest.

#### **Cost of Sales**

Premier's cost of sales rate has minimal improvement in 2019 with a rate of 84.12% compared to 84.92% in 2018. This improvement was due to the effect of price increase and the decrease in discounts to customers.

#### **Operating Expenses**

Premier's operating expenses during 2019 decreased by 41.38% as compared to 2018 due mainly to the decreased in marketing expenses which includes trade deals, bundling and samplings related to Pernod. Distribution costs significantly decreased as a result of decrease in revenues.

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

Other income (charges) of Premier in 2019 decreased by 0.26% from its 2018 amount of P20.62 million basically due to net effect of interest income on cash in bank and interest paid on loans and advances. Share in loss on investment to Pernod in 2019 amounted to P8.76 million.

## Net Income

During the year ended December 31, 2019 Premier realized net income of P47.039 million in 2019 which decreased by 9.89% versus 2018 mainly due to the decline in sales as a result of the transfer of distribution to Pernod products.

## Analysis of Financial Position

Shown below are the comparative financial position of Premier as of December 31, 2019 and 2018:

<i>(In Thousands)</i>	FY2019	%	FY2018	%	Inc (Dec)	%
<b>ASSETS</b>						
<b>Current Assets</b>						
Cash and cash equivalents	229,951	13.73%	130,921	6.90%	99,030	75.64%
Receivables – net	498,148	29.00%	796,755	42.01%	(298,607)	-37.48%
Inventories	599,727	34.92%	564,920	29.79%	34,807	6.16%
Prepayments and other current assets	247,347	14.40%	374,742	19.76%	(127,395)	-34.00%
<b>Total current assets</b>	<b>1,575,173</b>	<b>92.05%</b>	<b>1,867,338</b>	<b>98.46%</b>	<b>(292,165)</b>	<b>-15.65%</b>
<b>Noncurrent Assets</b>						
Property and equipment – net	6,541	0.38%	7,772	0.41%	(1,231)	-15.84%
Right-of-use assets	4,851	0.28%	14,626	0.77%	(9,775)	-66.83%
Investments	118,194	6.88%	-	0.00%	118,194	#DIV/0!
Deferred tax assets-net	3,705	0.22%	3,920	0.21%	(215)	-5.48%
Other non-current assets	3,203	0.19%	2,808	0.15%	395	14.07%
<b>Total noncurrent assets</b>	<b>136,494</b>	<b>7.95%</b>	<b>29,126</b>	<b>1.54%</b>	<b>107,368</b>	<b>368.63%</b>
<b>Total Assets</b>	<b>1,711,667</b>	<b>100.00%</b>	<b>1,896,464</b>	<b>100.00%</b>	<b>(184,797)</b>	<b>-9.74%</b>
<b>LIABILITIES AND EQUITY</b>						
<b>Current Liabilities</b>						
Accounts payable and accrued expenses	135,073	7.89%	203,397	10.73%	(68,324)	-33.59%
Income tax payable	212	0.01%	5,627	0.30%	(5,415)	-96.23%
Short-term loans payable	313,000	18.29%	357,000	18.82%	(44,000)	-12.32%
Dividends payable	100,000	5.84%	100,000	5.27%	-	0.00%
Lease liability	5,425	0.32%	10,833	0.57%	(5,408)	-49.92%
Due to related parties	192,852	11.27%	297,700	15.70%	(104,848)	-35.22%
Other current liabilities	13,901	0.81%	13,901	0.73%	-	0.00%
<b>Total current liabilities</b>	<b>760,463</b>	<b>44.43%</b>	<b>988,458</b>	<b>52.12%</b>	<b>(227,995)</b>	<b>-23.07%</b>
<b>Noncurrent Liabilities</b>						
Retirement benefit liability	9,204	0.54%	6,563	0.35%	2,641	40.24%
Lease liability-net of current portion	1,268	0.07%	6,693	0.35%	(5,425)	-81.05%
<b>Total noncurrent liabilities</b>	<b>10,472</b>	<b>0.61%</b>	<b>13,256</b>	<b>0.70%</b>	<b>(2,784)</b>	<b>-21.00%</b>
<b>Total Liabilities</b>	<b>770,935</b>	<b>45.04%</b>	<b>1,001,714</b>	<b>52.82%</b>	<b>(230,779)</b>	<b>-23.04%</b>
<b>EQUITY</b>						
Capital stock	150,000	8.76%	150,000	7.91%	-	0.00%
Additional paid-in capital	1,500	0.09%	1,500	0.08%	-	0.00%
Remeasurement of retirement liability - net of tax	4,921	0.29%	5,978	0.32%	(1,057)	-17.68%
Retained earnings	784,311	45.82%	737,272	38.88%	47,039	6.38%
<b>Total Equity</b>	<b>940,732</b>	<b>54.96%</b>	<b>894,750</b>	<b>47.18%</b>	<b>45,982</b>	<b>5.14%</b>
<b>Total Liabilities and Equity</b>	<b>1,711,667</b>	<b>100.00%</b>	<b>1,896,464</b>	<b>100.00%</b>	<b>(184,797)</b>	<b>-9.74%</b>

### **Current Assets**

**Cash and cash equivalents** amounted to P229.95 million and P130.92 million as at December 31, 2019 and December 31, 2018, respectively. The increase was due basically to the net effect of the net operating cash flows, collection of receivables and settlement of trade and non-trade payables during the year.

**Receivables'** decreased by 37.48% from December 31, 2018 balance of P796.75 million to 2019 balance of P498.15 million due mainly to the net effect of collections made. Credit and collections team and its process has been strengthened to ensure timely collections from customers.

**Inventories'** increased by 6.16% from December 31, 2018 balance of P564.92 million to 2019 balance of P599.72 million was due to the net effect of increases in revenues and stocking requirements.

**Prepayments and other current assets'** decreased by 34% from December 31, 2018 balance of P374.74 million to 2019 balance of P247.34 million as a result of applications of prepayments to suppliers and advances for taxes on 2019 purchases.

### **Non-current Assets**

**Property and equipment-net** book value as of December 31, 2019 decreased by 15.84% December 31, 2018 pertains to depreciation charges during the year.

**Right-of-use assets (ROU)** represents the values recognized from long-term lease contracts covering land and buildings utilized. The decrease of 66.83% of December 31, 2019 balance versus December 31, 2018 was mainly due to the amortization charges during the year.

**Investments** represents equity investment in Pernod Ricard Philippines which was made in February 2019.

**Other non-current assets** increased by P2.59 million in 2020 and P0.395 million in 2019 mainly due to the payment of deposits on lease.

### **Current Liabilities**

**Accounts payable and accrued expenses** pertains principally to trade payable to suppliers. In December 31, 2019, balance of P135.07 million decreased by 38.03% from December 31, 2018 balance of P218.92 million due to settlements made during the year.

**Income tax payable's** decreased by 96.23% mainly due to lower income taxes incurred relative to the decrease in net taxable income during the year.

**Short-term loans payable** decreased by P44million from 2018 balance due to settlements made.

**Lease liabilities due within one-year** account decreased by P5.41 million from P10.83 million in December 2018 to P5.42 million in December 2019 due principally to the net effect of additional leases, interest expense amortization recognized and lease payments made during the current period pertaining current portions.

### **Noncurrent Liabilities**

**Lease liabilities net of current portion** represents the values recognized from long-term lease contracts covering land and buildings utilized by Premier. Account balance decreased by P5.42 million from P6.69 million in December 2018 to P1.268 million in December 2019 due principally to the net effect of additional leases, and the reclassification to current portion for the interest expense amortization recognized and lease payments made during the current period pertaining current portions

**Retirement benefit liability** increased by P2.64 million in 2019 from its balance of P6.56 million 2018, was due to changes in financial and demographic assumptions as set forth in the Actuarial Valuation Report dated December 31, 2018.

### **Equity**

**Retirement benefits reserve** pertain to adjustments made in compliance with the accounting standard covering employee benefits. As at December 2019 and 2018, the account balances amounted to P4.92 million and P5.98million, respectively.

**Retained earnings** increased by P47.03 million in 2019 million or 6.38% from P737.27 million to P784.31 million due to profit realized by the company.

### **Sources and Uses of Cash**

A brief summary of cash flow movements is shown below:

<i>(In thousands)</i>	2019	2018
Net cash from (used in) operating activities	387,481	(233,096)
Net cash used in investing activities	(128,770)	(7,274)
Net cash from (used in) financing activities	(159,681)	297,352
Net increase in cash and cash equivalents	99,030	56,981

Net cash from and used in operating activities is basically attributable to the cash generated from operations and effect of the net settlement of trade payable accounts by the purchase of inventory requirements and other related current operating items.

On the other hand, net cash used in investing activities mainly pertains to the funds used for additional assets acquisition and some capital expenditures.

Net cash from and used in financing activities principally resulted from the net settlements and avilment of bank loans for working capital requirements.



Management believes that the current levels of internally generated funds from its operating activities and its present cash position enables Premier to meet its immediate future liquidity requirements under its current level of business. With its strong current financial position, this can be augmented through availments from existing untapped banking and credit facilities as and when required.

### **Material Events and Uncertainties**

Below is the discussion and analysis of material events and uncertainties known to management that would address the past and would have an impact on future operations:

- (x) Seasonal aspects that had a material effect on the financial condition or results of Premier's operations includes retail and liquor business which sales tend to peak during the gift-giving Christmas season;
- (xi) There are no changes in estimates of amounts reported in the current financial year or changes in estimates of amounts reported in prior financial years;
- (xii) There are no material events subsequent to the end of the period that have not been reflected in the financial statements;
- (xiii) There are no contingent liabilities or assets since the last statement of financial position period;
- (xiv) Sources of liquidity – Funding will be sourced from internally generated cash flows;
- (xv) There are no events that will trigger direct or contingent financial obligation that is material to Premier, including any default or acceleration of an obligation;
- (xvi) There are no material commitments for capital expenditures other than those performed in the ordinary course of trade or business;
- (xvii) There are no known trends, events or uncertainties that have had or that are reasonably expected to have a material impact on the revenues or income from continuing operations;
- (xviii) There are no significant elements of income not arising from continuing operations;

Due to Premier's sound financial condition, there are no foreseeable trends or events that may have material negative impact on its short-term or long-term liquidity.



## Management's Discussion and Analysis of Financial Performance & Financial Position

The following discussion and analysis of Premier's results of operations, financial condition and certain trends, risks and uncertainties that may affect Premier's business should be read in conjunction with the annual audited financial statements of the company for the years ended December 31, 2018 and 2017.

### Key Performance Indicators

The following financial ratios are considered by management as key performance indicators of Premier's operating results as well as its financial condition:

- Return on investment (Net income/ Ave. stockholders' equity) - measures the profitability of stockholders' investment
- Profit margin (Net income/ Net revenue) - measures the net income produced for each peso of sales
- EBITDA to interest expense (EBITDA/ Interest expense) – measures the ability of Premier to pay interest of its outstanding debts
- Current ratio (Current asset/ Current liabilities) - measures the short-term debt-paying ability of Premier
- Asset turnover (Net revenue/ Average total assets) - measures how efficiently assets are used to generate revenues
- Asset to equity ratio (Assets/ Shareholders' equity) - indicates Premier's leverage used to finance the firm
- Debt to equity ratio (Liabilities/ Shareholders' Equity) -measure of a Premier's financial leverage

The table below shows the key performance indicators for the past two years:

<b>Performance Indicators</b>	<b>2018</b>	<b>2017</b>
Return on investment	<b>6.03%</b>	<b>13.31%</b>
Profit margin	<b>2.20%</b>	<b>5.15%</b>
EBITDA to interest expense	<b>4.89x</b>	<b>41.27x</b>
Current ratio	<b>1.91:1</b>	<b>2.11:1</b>
Asset turnover	<b>1.80:1</b>	<b>1.35:1</b>
Asset to equity	<b>2.10:1</b>	<b>1.92:1</b>
Debt to equity ratio	<b>1.10:1</b>	<b>0.92:1</b>

These financial ratios were calculated based on the audited financial statements of Premier for the years ended December 31, 2018 and 2017.

## **Analysis of Financial Performance**

### **Comparative Years 2018 and 2017**

The table below shows the results of operations of Premier for the years ended December 31, 2018 and 2017:

<i>(In Thousands)</i>	<b>FY2018</b>	<b>%</b>	<b>FY2017</b>	<b>%</b>	<b>Inc (Dec)</b>	<b>%</b>
<b>REVENUES</b>	<b>2,368,581</b>	<b>100.00%</b>	<b>2,025,392</b>	<b>100.00%</b>	<b>343,189</b>	<b>16.94%</b>
<b>COST OF SALES</b>	<b>2,011,405</b>	<b>84.92%</b>	<b>1,644,156</b>	<b>81.18%</b>	<b>367,249</b>	<b>22.34%</b>
<b>GROSS PROFIT</b>	<b>357,176</b>	<b>15.08%</b>	<b>381,236</b>	<b>18.82%</b>	<b>(24,060)</b>	<b>-6.31%</b>
<b>OPERATING EXPENSES</b>	<b>270,211</b>	<b>11.41%</b>	<b>229,755</b>	<b>11.34%</b>	<b>40,456</b>	<b>17.61%</b>
<b>INCOME FROM OPERATIONS</b>	<b>86,965</b>	<b>3.67%</b>	<b>151,481</b>	<b>7.48%</b>	<b>(64,516)</b>	<b>-42.59%</b>
<b>OTHER INCOME (CHARGES) - net</b>	<b>(20,627)</b>	<b>-0.87%</b>	<b>(5,063)</b>	<b>-0.25%</b>	<b>(15,564)</b>	<b>307.41%</b>
<b>INCOME BEFORE INCOME TAX</b>	<b>66,338</b>	<b>2.80%</b>	<b>146,418</b>	<b>7.23%</b>	<b>(80,080)</b>	<b>-54.69%</b>
<b>INCOME TAX EXPENSE</b>	<b>14,135</b>	<b>0.60%</b>	<b>42,028</b>	<b>2.08%</b>	<b>(27,893)</b>	<b>-66.37%</b>
<b>NET INCOME FOR THE YEAR</b>	<b>52,203</b>	<b>2.20%</b>	<b>104,390</b>	<b>5.15%</b>	<b>(52,187)</b>	<b>-49.99%</b>

### **Revenues**

Premier posted a revenue of P2.368 Billion during the year ended December 31, 2018, which increased by 16.94% from its 2017 level. The increase is mainly attributable to the launch of new product line for brandy and beers. The increase in 2018 sales could be attributed to pipeline orders where distributors purchased large amounts of the newly introduced product. Orders for subsequent years normalize thereafter.

### **Cost of Sales**

Premier's cost of sales in 2018 increased by 22.34%. Cost of sales ratio to revenues in 2018 increased to 84.92% compared to 81.18% in 2017 leading to a lower gross profit. This is attributable to launch of promotional activities and customer listing spend.

### **Operating Expenses**

Premier's operating expenses during 2018 increased by 17.61% as compared to 2017 due mainly to the increased in marketing expenses which includes trade deals, bundling and samplings. It also included the marketing and sampling expenses for the new product line for brandy and beer.

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

Significant increase in other income (charges) of Premier in 2018 pertains to the increase of interest expense attributable to bank loans secured in 2018.

## Net Income

During the year ended December 31, 2018, Premier realized net income of P52.03 million which decreased by 49.99% mainly due to the increase in advertising expense for the new product line and interest expenses.

## **Analysis of Financial Position**

Shown below are the comparative financial position of Premier as of December 31, 2018 and 2017:

<i>(In Thousands)</i>	FY2018	%	FY2017	%	<i>Inc(Dec)</i>	%
<b>ASSETS</b>						
<b>Current Assets</b>						
Cash and cash equivalents	130,921	6.96%	73,940	4.60%	56,981	77.06%
Receivables – net	796,755	42.36%	761,984	47.36%	34,771	4.56%
Inventories	564,920	30.03%	694,797	43.18%	(129,877)	-18.69%
Prepayments and other current assets	374,742	19.92%	67,150	4.17%	307,592	458.07%
<b>Total current assets</b>	<b>1,867,338</b>	<b>99.28%</b>	<b>1,597,871</b>	<b>99.31%</b>	<b>269,467</b>	<b>16.86%</b>
<b>Noncurrent Assets</b>						
Property and equipment – net	7,772	0.41%	3,479	0.22%	4,293	123.40%
Deferred tax assets-net	3,050	0.16%	5,279	0.33%	(2,229)	-42.22%
Other non-current assets	2,808	0.15%	2,322	0.14%	486	20.93%
<b>Total noncurrent assets</b>	<b>13,630</b>	<b>0.72%</b>	<b>11,080</b>	<b>0.69%</b>	<b>2,550</b>	<b>23.01%</b>
<b>Total Assets</b>	<b>1,880,968</b>	<b>100.00%</b>	<b>1,608,951</b>	<b>100.00%</b>	<b>272,017</b>	<b>16.91%</b>
<b>LIABILITIES AND EQUITY</b>						
<b>Current Liabilities</b>						
Accounts payable and accrued expenses	218,924	11.64%	286,013	17.78%	(67,089)	-23.46%
Income tax payable	5,627	0.30%	24,366	1.51%	(18,739)	-76.91%
Short-term loans payable	357,000	18.98%	50,000	3.11%	307,000	614.00%
Dividends payable	100,000	5.32%	100,000	6.22%	-	0.00%
Due to related parties	297,700	15.83%	297,700	18.50%	-	0.00%
<b>Total current liabilities</b>	<b>979,251</b>	<b>52.06%</b>	<b>758,079</b>	<b>47.12%</b>	<b>221,172</b>	<b>29.18%</b>
<b>Noncurrent Liabilities</b>						
Retirement benefit liability	6,563	0.35%	14,234	0.88%	(7,671)	-53.89%
<b>Total noncurrent liabilities</b>	<b>6,563</b>	<b>0.35%</b>	<b>14,234</b>	<b>0.88%</b>	<b>(7,671)</b>	<b>-53.89%</b>
<b>Total Liabilities</b>	<b>985,814</b>	<b>52.41%</b>	<b>772,313</b>	<b>48.00%</b>	<b>213,501</b>	<b>27.64%</b>
<b>EQUITY</b>						
Capital stock	150,000	7.97%	150,000	9.32%	-	0.00%
Additional paid-in capital	1,500	0.08%	1,500	0.09%	-	0.00%
Remeasurement of retirement liability - net of tax	5,978	0.32%	(335)	-0.02%	6,313	-1884.48%
Retained earnings	737,676	39.22%	685,473	42.60%	52,203	7.62%
<b>Total Equity</b>	<b>895,154</b>	<b>47.59%</b>	<b>836,638</b>	<b>52.00%</b>	<b>58,516</b>	<b>6.99%</b>
<b>Total Liabilities and Equity</b>	<b>1,880,968</b>	<b>100.00%</b>	<b>1,608,951</b>	<b>100.00%</b>	<b>272,017</b>	<b>16.91%</b>

### Current Assets

**Cash and cash equivalents** amounted to P130.92 million and P73.94 million as at December 31, 2018 and December 31, 2017, respectively. The increase was due basically to the net effect of the net operating cash flows, collection of receivables and settlement of trade and non-trade payables during the year.

**Receivables**' increased by 4.56% from December 31, 2017 balance of P761.98 million to 2018 balance of P796.76 million due mainly to the net effect of increase in sales and collections made.

**Inventories**' decreased by 18.69% from December 31, 2017 balance of P694.79 million to 2018 balance of P564.92 million due to additional stocking requirements in anticipation of increased sales..

**Prepayments and other current assets**' by 458.07% from December 31, 2017 balance of P67.50 million to 2018 balance of P374.74 million. The increase was due to advance payments for suppliers for the current year's purchase orders which are to be shipped in 2019.

### Non-current Assets

**Property and equipment-net** book value as of December 31, 2018 increased by 123.40% from its December 31, 2017 balance due to some capital expenditures for leasehold improvements.

**Other non-current assets** increased by P486 thousand in 2018 mainly due to the payment of deposits on lease.

### Current Liabilities

**Accounts payable and accrued expenses** pertains to the trade payable to suppliers. In December 31, 2018, balance of P218.92 million decreased by 23.46% from December 31, 2017 balance of P286.01 million were primarily due to settlements of trade and non-trade liabilities.

**Income tax payable**'s decreased by 76.91% mainly due to lower income taxes incurred relative to the decrease in net taxable income during the year.

**Short-term loans payable** increased in 2018 due to additional availments of bank loans to fund additional working capital requirements

### Noncurrent Liabilities

**Retirement benefit liability** decreased by 53.89% from December 31, 2017 balance of P14.23 million to 2018 balance of P6.56 million, pertains to all factors affecting valuations

### **Equity**

**Retirement benefits reserve** pertain to adjustments made in compliance with the accounting standard covering employee benefits. As at December 2018 and 2017, the account balances amounted to P5.978 million, and P-335 thousands respectively due to changes in financial and demographic assumptions as set forth in the Actuarial Valuation Report dated December 31, 2018.

**Retained earnings** increased by P52.203 million in 2018 or 7.62% due to profit realized by the company.

### **Sources and Uses of Cash**

A brief summary of cash flow movements is shown below:

<i>(In thousands)</i>	2018	2017
Net cash from (used in) operating activities	(242,745)	80,459
Net cash used in investing activities	(7,274)	(1,040)
Net cash from (used in) financing activities	307,000	(20,000)
Net increase in cash and cash equivalents	56,981	59,419

Net cash from and used in operating activities is basically attributable to the cash generated from operations and effect of the net settlement of trade payable accounts by the purchase of inventory for requirements and other related current operating items.

On the other hand, net cash used in investing activities mainly pertains to the funds used for additional assets acquisition and some capital expenditures.

Net cash generated from and used in financing activities principally resulted from the availment of bank loans for working capital requirements in 2018. Payment of bank loan was made in 2017 amounting to P20M.

Management believes that the current levels of internally generated funds from its operating activities and its present cash position enables Premier to meet its immediate future liquidity requirements under its current level of business. With its strong current financial position, this can be augmented through availments from existing untapped banking and credit facilities as and when required.

### **Material Events and Uncertainties**

Below is the discussion and analysis of material events and uncertainties known to management that would address the past and would have an impact on future operations:

- (xix) Seasonal aspects that had a material effect on the financial condition or results of Premier's operations includes retail and liquor business which sales tend to peak

during the gift-giving Christmas season;

- (xx) There are no changes in estimates of amounts reported in the current financial year or changes in estimates of amounts reported in prior financial years;
- (xxi) There are no material events subsequent to the end of the period that have not been reflected in the financial statements;
- (xxii) There are no contingent liabilities or assets since the last statement of financial position period;
- (xxiii) Sources of liquidity – Funding will be sourced from internally generated cash flows;
- (xxiv) There are no events that will trigger direct or contingent financial obligation that is material to Premier, including any default or acceleration of an obligation;
- (xxv) There are no material commitments for capital expenditures other than those performed in the ordinary course of trade or business;
- (xxvi) There are no known trends, events or uncertainties that have had or that are reasonably expected to have a material impact on the revenues or income from continuing operations;
- (xxvii) There are no significant elements of income not arising from continuing operations;

Due to Premier's sound financial condition, there are no foreseeable trends or events that may have material negative impact on its short-term or long-term liquidity.

## ANNEX “B”

### **Guidelines for Participating via Remote Communication and Voting *in Absentia* in 2021 Annual Stockholders’ Meeting of Da Vinci Capital Holdings, Inc.**

The 2021 Annual Stockholders’ Meeting (ASM) of Da Vinci Capital Holdings, Inc. (the Company) will be on May 28, 2021 at 10:00 am and with a record date of May 3, 2021.

In consideration of the health and safety concerns of everyone brought by COVID 19 pandemic, the Board of Directors of the Company has approved and authorized our stockholders to participate in the ASM via remote communication and to exercise their right to vote *in absentia*.

#### **Registration**

The stockholder must notify the Corporate Secretary of his/her intention to participate in the ASM via remote communication and exercise his/her right to vote *in absentia* by no later than May 24, 2021, by emailing at [corporate.governance.davinci@gmail.com](mailto:corporate.governance.davinci@gmail.com) and by submitting there the following supporting documents/information:

##### *Individual Stockholders*

1. Copy of valid government ID of stockholder/proxy
2. Stock certificate number/s
3. If appointing a proxy, copy of proxy form duly signed by stockholder (need *not* be notarized)
4. Email-address and contact number of stockholder or proxy

##### *Multiple Stockholders or joint owners*

1. Stock certificate number/s
2. Proof of authority of stockholder voting the shares signed by the other registered stockholders, for shares registered in the name of multiple stockholders (need *not* be notarized)
3. Copy of valid government IDs of all registered stockholders
4. Email-address and contact number of the authorized representative

##### *Corporate Stockholders*

1. Secretary’s Certification of Board resolution appointing and authorizing a proxy to participate in the ASM
2. Valid government ID of the authorized representative
3. Stock certificate number/s
4. Email-address and contact number of the authorized representative

##### *Stockholders with Shares under broker account*

1. Certification from the broker as to the number of shares owned by the stockholder
2. Valid government ID of stockholder
3. If appointing a proxy, copy of proxy form duly signed by stockholder (need *not* be notarized)
4. Email-address and contact number of stockholder or proxy

#### **Online Voting**

The stockholders who have sent us their intention to participate in the ASM shall be notified

via email of their log-in passwords for the voting portal. The stockholders can then cast their votes following these simple steps:

1. Log-in to the voting portal by clicking the link on our company website.
2. Use the log-in passwords sent by email to the email address of the stockholder provided to the Company to access the voting portal.
3. Upon accessing the portal, the stockholder can vote on each agenda item.
4. Once the stockholder has finalized his/her vote, he can proceed to submit his vote by clicking the "Submit" button.

### **ASM Livestream**

The stockholders who have the log-in passwords can participate in the ASM to be broadcasted live by the Company in our website. Further instructions on how to access the live stream will also be posted at [www.davincicapital.com.ph](http://www.davincicapital.com.ph)

There will be video recordings of the ASM which a stockholder on record may avail upon request.

### **Open Forum**

There will be Open Forum during the meeting, where representatives of the Company may answer as many questions as time will allow. However, a stockholder may send their questions in advance by sending an email at [corporate.governance.davinci@gmail.com](mailto:corporate.governance.davinci@gmail.com) on or before May 24, 2021.

*For any queries or concerns, please contact the office of the Assistant Corporate Secretary at (632) 8523-3055 or via email at [corporate.governance.davinci@gmail.com](mailto:corporate.governance.davinci@gmail.com).*



# ANNEX "C"

## AMENDED COMPREHENSIVE CORPORATE DISCLOSURE OF DA VINCI CAPITAL HOLDINGS, INC. March 30, 2021

This disclosure is in connection with: (a) the subscription by Invescap Incorporated (“**Invescap**”) to twenty-five percent (25%) of the increase in authorized capital stock or in the amount of P418,100,000.00 divided into 4,181,000,000 common shares to support the increase in the authorized capital stock of Da Vinci Capital Holdings, Inc.’s (the “**Corporation**” or “**Da Vinci**”) to P2 billion, as approved by the stockholders on November 20, 2020; (b) the rescission of the Subscription Contract dated 28 January 2021 between Invescap and Da Vinci, as approved by the Corporation’s Board of Directors on 29 March 2021, (c) the proposed issuance of 11,250,000,000 common shares of stock (the “**Shares**”) of Da Vinci in exchange for Cosco Capital, Inc.’s (“**Cosco**”) shares of stock in its subsidiaries, specifically, Montosco, Inc. (“**Montosco**”), Meritus Prime Distributions, Inc. (“**Meritus**”), and Premier Wine and Spirits, Inc. (“**Premier**”) in support of the proposed increase in the authorized capital stock of the Corporation; (c) the additional listing of Shares, as approved by the Corporation’s Board of Directors; and (d) the conduct of follow-on or public offering to local and/or foreign investors (the “**Public Offering**”).

The rescission of the Subscription Contract, the exchange of shares (the “**Share Swap Transaction**”), the Public Offering, and the additional listing of the Shares will be presented to the Corporation’s stockholders for approval. The Corporation shall likewise seek, during a special stockholders meeting, the waiver by the majority of its minority stockholders present or represented in the said meeting to the requirement to conduct a rights or public offering of the shares subscribed by the related parties, with respect to the proposed Share Swap Transaction between Cosco and Da Vinci in support of the proposed increase in the authorized capital stock of the Corporation. Cosco is 33% owned by Mr. Lucio Co, and Da Vinci is 85% owned by Invescap.

In compliance with Section 3 of the Philippine Stock Exchange (“**PSE**”) Rules on Backdoor Listing, and Article V, Part A of the PSE Listing and Disclosure Rules on the Rule on Additional Listing of Shares, the Corporation sets out below the information required for and under this Comprehensive Corporate Disclosure.

### **(a) Copies of all agreements duly executed that are relevant to the transaction**

On January 28, 2021, Da Vinci and Invescap executed a Subscription Contract whereby Invescap subscribed to the twenty-five per cent (25%) of the increase in authorized capital stock or in the amount of P418,100,000.00 divided into 4,181,000,000 common shares at the proposed new par value of P0.10 per share, and paid 25% thereof in cash as required under Section 37 of the Revised Corporation Code, copy of the Subscription Contract is hereto attached as “**Annex A**”.

On March 8, 2021, Da Vinci and Cosco agreed on the consideration of the Share Swap Transaction to be 11,250,000,000 common shares at P2.00 each share in exchange of Cosco’s 100% outstanding shares in Montosco, Meritus and Premier. Isla Lipana & Co. has been engaged to provide the third-party ‘Fairness Opinion’ on the transaction, with a supporting Valuation Report. The Corporation will provide the Exchange of such Fairness Opinion and supporting Valuation Report in due course.

No Deed of Exchange has been signed yet but as soon as the stockholders approve the transaction, both parties will sign the necessary documents and we will furnish the Exchange copies thereof.

On March 29, 2021, the Board of Directors of Da Vinci approved the rescission of the Subscription Contract with Invescap, as mutually agreed by the parties.

No Rescission Agreement has been signed yet until the stockholders approve the rescission of the Subscription Contract. Both parties will sign the necessary documents and we will furnish the Exchange copies thereof in due course.

**(b) Nature and description of the proposed transaction, including the timetable for implementation, and related regulatory requirements, if applicable**

**(1) Increase in the authorized capital stock**

On October 26, 2020, during the special meeting of the Da Vinci's Board of Directors, it resolved to approve the increase of the authorized capital stock of the Corporation and amend the Article Seventh of the Corporation's articles of incorporation for purposes of implementing the Share Swap Transaction. The authorized capital stock was approved to be increased to P2 billion divided into twenty (20) billion common shares with par value of P0.10 per share. The Board of Directors likewise approved, during the aforesaid meeting, the increase in the par value of the Corporation's shares from P0.023 per share to P0.10 per share.

During the November 20, 2020 annual stockholders' meeting, Da Vinci's stockholders approved the increase and the amendment of the articles of incorporation to reflect the increase in the authorized capital stock and par value, among others. In the same meeting, Da Vinci's board of directors was given the authority to set the final terms and conditions of the said increase including the manner of subscription thereto.

On January 28, 2021, Da Vinci and Invescap executed a Subscription Contract whereby Invescap subscribed to the required twenty-five per cent (25%) of the increase in authorized capital stock or in the amount of P418,100,000.00 divided into 4,181,000,000 common shares at the proposed par value of P0.10 per share, and paid 25% thereof in cash, to support the increase in the authorized capital stock pursuant to the requirement under Section 37 of the Revised Corporation Code.

On February 19, 2021, the Board of Directors of the Corporation ratified the said subscription of Invescap to the 25% of the increase in the authorized capital stock at the proposed par value of P0.10 per share.

On March 29, 2021, the Board of Directors of Da Vinci approved the rescission of the Subscription Contract which was mutually agreed by the parties. The Board of Directors, after evaluating the transaction structure and discussing with its advisers, found that rescinding the Invescap subscription will streamline the process by eliminating unnecessary steps, create better efficiencies and optimize the structure that will: (1) facilitate the implementation and early completion of the share swap transaction; (2) allow the Company to create better value for all of its shareholders, including its public shareholders, that is less dilutive to the minority; and (3) provide the Company sufficient available unissued shares that will allow the Company to immediately act on capital raising opportunities when market conditions are optimal.

The rescission of the Subscription Contract will be presented by Da Vinci to the stockholders for approval.

In view of the rescission of the Subscription Contract, the proposed increase in authorized capital stock, which reflects the subscription by Invescap and which is still under evaluation by the SEC, has been withdrawn.

**(2) Share Swap Transaction**

As discussed during its February 19, 2021 special meeting, the Board approved the issuance of common shares of the Corporation, which will be created and issued out of an increase in its authorized capital stock, in exchange for 100% of the outstanding shares of Montosco, Meritus and Premier.

Specifically, (a) 9,488,444,240 common shares of Da Vinci will be swapped with 7,499,994 common shares of Cosco in Montosco, Inc.; (b) 907,885,074 common shares of Da Vinci will be swapped with 7,499,994 common shares of Cosco in Meritus Prime Distributions, Inc.; and finally, (c) 853,670,686 common shares of Da Vinci will be swapped with 1,499,993 common shares of Cosco in Premier Wine and Spirits, Inc.

On March 29, 2021, the Board of Directors of Da Vinci approved the proposal of Cosco to subscribe to 11,250,000,000 common shares at P2.00 per share in support of the proposed increase in Da Vinci's authorized capital stock via a Share Swap Transaction.

Upon completion of the Share Swap Transaction, Da Vinci will legally and beneficially own 100% of the outstanding shares of each of Montosco, Meritus and Premier. As a corollary, Cosco will own a controlling equity interest in Da Vinci.

Considering that Mr. Lucio L. Co, the Chairman of the Board of Directors of Da Vinci is also Cosco's Chairman of the Board, with ownership of 33% of Cosco's outstanding capital stock, he abstained from voting on the proposed Share Swap Transaction.

Likewise, Atty. Bienvenido E. Laguesma is an Independent Director of both Cosco and Da Vinci; thus, he also abstained from voting on the transaction, as proposed.

### (3) Additional Listing of the Shares

The Corporation must apply for listing with the PSE of the additional shares of stock to be issued in connection with the increase of capital stock and the Share Swap Transaction to comply with the PSE listing rules. The additional listing of shares without the conduct of a rights or public offering shall be submitted for approval of the stockholders.

### (4) Follow-On / Public Offering

Considering that the proposed increase in the authorized capital stock and the Share Swap Transaction will affect the minimum public float of the Corporation, Da Vinci intends to conduct a Follow-on Public Offering of its shares as soon as possible after the completion of the Share Swap Transaction to comply with the minimum public ownership requirement under SEC and PSE rules.

### (5) Regulatory Requirements

#### *Minimum Subscription of Increase in Authorized Capital Stock*

To comply with the requirements of Section 37 of the Revised Corporation Code, which provides that at least 25% of the increased capital stock of Da Vinci must be subscribed, Cosco will subscribe to 11,250,000,000 common shares at P2.00 per share via the Share Swap Transaction.

#### *Conduct of Rights Offering*

In addition to the stockholders' approval, the proposed Share Swap Transaction and increase in authorized capital stock, which involves related parties, is subject to the conduct of a rights or public offering under Article V, Section 5 of the Consolidated Listing and Disclosure Rules of the PSE.

In this regard, the Board of Directors of the Corporation will also request the minority stockholders that will be present or represented during the annual stockholders' meeting to waive such rights or public offering requirement.

#### *Tax-Free Exchange*

The Share Swap Transaction will be done via a tax-free exchange under Section 40(C)(2) of

the National Internal Revenue Code ("**Tax Code**"), as amended, which provides:

"SEC. 40. Determination of Amount and Recognition of Gain or Loss

(C) Exchange of Property. -

(2) Exception.

No gain or loss shall also be recognized if property is transferred to a corporation by a person in exchange for stock or unit of participation in such a corporation of which as a result of such exchange said person, alone or together with others, not exceeding four (4) persons, gains control of said corporation: Provided, That stocks issued for services shall not be considered as issued in return for property."

As applicable, the parties to the Share Swap Transaction intend to file with the Bureau of Internal Revenue ("**BIR**") an application for a tax-free exchange ruling confirming that the transaction is a tax-free exchange transaction under Section 40(C)(2) of the Tax Code, and is thus, exempt from the payment of taxes such as income tax, value-added, donor's tax and documentary stamp tax. Securing a favorable ruling from the BIR is a material consideration of the parties in entering into the Share Swap Transaction, and they may not proceed with the transaction in the event that the BIR does not grant such favorable ruling.

#### *Philippine Competition Act*

Pursuant to Section 4 (eee) of Republic Act ("RA") No. 11494 or the "Bayanihan to Recover as One Act, all mergers and acquisitions with transaction values below PhP50 Billion shall be exempt from compulsory notification under Section 17 of Republic Act No. 10667 or the "Philippine Competition Act" if entered into within a period of two (2) years from the effectivity of RA No. 11494; and shall likewise be exempt from the Philippine Competition Commission's ("**PCC**") power to review mergers and acquisitions motu proprio provided in Section 12 of RA No. 10667 for a period of one (1) year from the effectivity of RA No. 11494.

Despite the exemption from the requirement, the Corporation will submit to the PCC a request for confirmation of non-coverage from the compulsory notification regime pursuant to the Revised Guidelines on Letters of Non-Coverage from Compulsory Notification, in respect of the proposed Share Swap Transaction.

#### *Approval of Increase of Capital*

The Corporation anticipates the approval of its application for increase in authorized capital stock with the SEC by the second quarter of 2021.

**(c) Reason or Purpose of the transaction including the benefits which are expected to be accrued to the listed issuer as a result of the transaction**

(1) Increase in Authorized Capital Stock

Da Vinci's proposed increase in authorized capital stock is for the purpose of: (i) implementing the proposed Share Swap Transaction; and (ii) raising additional capital either through Public Offering or private placement, or combination of both, to fund the Corporation's projects and investments consistent with its business purposes.

The Corporation intends to conduct a Public Offering of its shares as soon as possible after the completion of the Share Swap Transaction to comply with the minimum public ownership requirement under SEC and PSE rules. The use of proceed of such Public Offering shall be disclosed at the appropriate time.

(2) Swap of Common Shares

The share swap transaction between Cosco and Da Vinci will result into the strategic spin-off of the three (3) liquor subsidiaries of Cosco Capital and injection of these companies into a separate publicly listed company thru Cosco acquiring controlling interest in Da Vinci.

The separate listing thru the backdoor listing is intended to unlock the strategic values of the three (3) liquor companies thru a pure liquor and wine distribution listed company in the capital market which will be the platform to further grow and expand the business.

**(d) *The aggregate value of the consideration, explaining how this is to be satisfied, including the terms of any arrangements for payment on a deferred basis***

On March 8, 2021, Da Vinci approved the valuation of three (3) liquor companies of Cosco at P22,500,000,000.00 to be paid in stocks amounting to 11,250,000,000 common shares at P2.00 per share in exchange for 100% of Cosco's outstanding shares of Montosco, Meritus and Premier, as follows:

- 9,488,444,240 Da Vinci common shares will be swapped with 7,499,994 common shares of Cosco in Montosco;
- 907,885,074 Da Vinci common shares will be swapped with 7,499,994 common shares of Cosco in Meritus;
- 853,670,686 Da Vinci common shares will be swapped with 1,499,993 common shares of Cosco in Premier.

On March 29, 2021, the Board of Directors of Da Vinci approved the proposal of Cosco to subscribe to 11,250,000,000 common shares at P2.00 per share in support of the proposed increase in Da Vinci's authorized capital stock via the Share Swap Transaction.

The Share Swap Transaction will take effect upon approval of Da Vinci's stockholders and the SEC. Isla Lipana & Co. has been engaged to provide the third-party Fairness Opinion on the transaction, with a supporting valuation report.

**(e) *The basis upon which the consideration or the issue value was determined***

The consideration for the common shares of Da Vinci to be exchanged for Cosco's 100% outstanding shares in each of Montosco, Meritus Prime and Premier Wine is based on discounted cash flow approach and shell premium analysis for Da Vinci.

Isla Lipana & Co. has been engaged to issue the corresponding 'fairness opinion' with valuation report to support the application for approval of the Share Swap Transaction to be filed with the SEC.

**(f) *For cash consideration, the detailed work program of the application of proceeds, the corresponding timetable of disbursements and status of each project included in the work program. For debt retirement application, state which projects were financed by debt being retired, the project cost, the amount of project financed by debt and financing sources for the remaining cost of the project***

There will be no cash consideration for the issuance of the Da Vinci's common shares pursuant to the Share Swap Transaction.

**(g) *The Corporation, as the listed company, must present a statement of active business pursuits and objectives which details the steps undertaken and proposed to be undertaken by the Corporation in order to advance its business***

The matters that have been approved by the Board of Directors in its meetings on February 19, 2021 and on March 29, 2021, which will be presented to the stockholders for their approval at the special stockholders' meeting to be scheduled, are the steps being undertaken by the Corporation in order to advance its business, specifically the creation of additional shares to allow the Share Swap Transaction and for future capital raising activities to fund the Corporation's projects and investments consistent with its business purposes.

The Corporation will be engaged in the distribution and marketing of local and imported wines, liquors, beer, other beverages and related products. It intends to widen its market coverage in the Philippines, engage in e-commerce, add more brands in its portfolio, and buy or build its own liquor production or manufacturing facilities in the future.

**(h) Effects in the Corporation, as the listed company, before and after the Share Swap Transaction on the following:**

(1) Increase in Authorized Capital Stock

BEFORE THE INCREASE	AFTER THE INCREASE
Authorized Capital Stock: P327,600,000.00 (1,200,000,000 Common Shares with par value of P0.023 per share and 3,000,000,000 Preferred Shares with par value of P0.10 per share)	Authorized Capital Stock: P2,000,000,000.00 (20,000,000,000 Common Shares with par value of P0.10 per share)
Outstanding Capital Stock:  1,124,999,969	Outstanding Capital Stock:  11,508,749,992.80
Paid-Up Capital Stock:  1,124,999,969	Paid Up Capital Stock:  11,508,749,992.80

*\*Outstanding capital stock consists of the existing stockholders of Da Vinci equivalent to 258,749,992.87 shares (after changing the par value at P0.10) and the new 11,250,000,000 shares to be issued to Cosco at P2.00 per share.*

*\*Paid Up Capital Stock consists of the existing stockholders of Da Vinci equivalent to 258,749,992.87 shares at P0.10 per share or P25,874,999.29 and 11,250,000,000 shares of Cosco at P2.00 per share.*

(2) Change in the Nature of Business

The Corporation will remain a holding company but, after the transaction, the Corporation will have three (3) operating subsidiary companies engaged in the liquor and wine distribution business.

There will be no change in the board of directors and officers of the Corporation as a consequence of the Share Swap Transaction.

(3) Change in Name

In contemplation of the re-organization and to make it more appropriate to the intended purpose, the Corporation shall change its name to "The Keepers Holdings, Inc.", as approved by the Directors on October 6, 2020 and approved by the stockholders on November 20, 2020. This has yet to be approved by the SEC.

(4) Change in Board of Directors

There will be no change in the Board of Directors.

(5) Ownership Structure (including percentage holdings to total outstanding shares') of the Corporation Before and After the Transaction

<b>BEFORE THE INCREASE IN CAPITAL STOCK</b>	<b>AFTER THE INCREASE IN CAPITAL STOCK</b>
Authorized Capital Stock: P327,600,000.00 (1,200,000,000 Common Shares with par value of P0.023 per share and 3,000,000,000 Preferred Shares with par value of PhP0.10 per share)	Authorized Capital Stock: P2,000,000,000.00 (20,000,000,000 Common Shares with par value of P0.10 per share)
Outstanding Capital Stock: Invescap Incorporated – 85% Public Float – 15%	Outstanding Capital Stock: Cosco Capital, Inc. – 98% Invescap Incorporated – 1.9% Public Float – less than 1%

(6) Capital Structure of the Corporation

Please see the discussion under item (h)(1) above.

**(i) Additional information on unlisted companies:**

Following is a brief description of the related unlisted liquor companies, including capital structures based on their General Information Sheets and financial information based on Audited Financial Statements:

*Montosco, Inc.*

**(i) Nature of business**

Montosco is a domestic corporation registered with the SEC on August 13, 2008, and was incorporated for the primary purpose of trading goods on wholesale and retail basis.

**(ii) Major projects and investment**

Montosco is the lead company among the three (3) liquor companies subject of the share swap, having in its portfolio "Alfonso" the number one imported brand in the country by volume and value. It drives the liquor segment's revenue and bottomline. Completing Montosco's portfolio is Diageo, the leading spirits company in the world, having Johnnie Walker as its leading brand. A unique trading relationship with Diageo has been established, including exclusivity on key brands.

**(iii) List of Subsidiaries and affiliates with percentage of holdings**

Montosco has no subsidiary.

**(iv) Capital Structure**

<b>Type of Security</b>	<b>Amount (in PhP)</b>	<b>Number of Shares</b>
<i>Authorized Capital Stock</i>		

Common Stock	750,000,000.00	7,500,000
<b>Subscribed Shares</b>		
Common Stock	750,000,000.00	7,500,000
<b>Paid-up Capital</b>		
Common Stock	750,000,000.00	7,500,000

Type of Security	Amount (in PHP)
<i>Par Value</i>	
Common Stock	100.00

(v) ***Ownership Structure (including percentage of holdings)***

Name of Stockholder	Number of Shares	Percentage of Ownership
Cosco Capital, Inc.	7,499,994	100.00%
Lucio L. Co	1	0.00%
Susan P. Co	1	0.00%
Jannelle O. Uy	1	0.00%
Pamela Justine P. Co	1	0.00%
Camille Clarisse P. Co	1	0.00%
Katrina Marie P. Co	1	0.00%

(vi) ***Board of Directors, Principal Officers and Major Shareholders***

<b>Board of Directors</b>	
Jannelle O. Uy	Chairman of the Board
Pamela Justine P. Co	Director
Camille Clarisse P. Co	Director
Lucio L. Co	Director
Susan P. Co	Director

<b>Officers</b>	
Jannelle O. Uy	President
Maricel B. Joyag	Vice President
Evelyn B. Binanitan	Corporate Secretary
Maria Crisanta A. Relos	Treasurer

(vii) ***The interest which directors of the parties to the transaction have in the transaction***

Mr. Lucio L. Co is the Chairman of Cosco's Board, and a Director of both Montosco and Da Vinci. He owns 33% of Cosco's outstanding capital stock and has nominal shares in Montosco and is the ultimate beneficial owner of Invescap Incorporated which is the principal stockholder of Da Vinci.

Meanwhile, Ms. Camille Clarisse P. Co is a Director of both Da Vinci and Montosco, with nominal shareholding. She owns 1.48% of Cosco's outstanding capital stock.



Finally, Atty. Bienvenido E. Laguesma is an Independent Director of both Cosco and Da Vinci.

*(viii) Statement as to the steps to be taken, if any, to safeguard the interests of the shareholders*

Mr. Lucio L. Co, as the common Director of both parties to the Share Swap Transaction and of Montosco, abstained from voting on the proposed Share Swap Transaction during the special meeting of Da Vinci's Board held on February 19, 2021. The other shareholders of Montosco have been notified of the proposed Share Swap Transaction.

Atty. Bienvenido E. Laguesma, who is an Independent Director of both Cosco and Da Vinci, also abstained from voting on the proposed transaction.

*(ix) Any other information necessary to enable the investor to make an informed investment decision*

The latest articles of incorporation, by-laws, general information sheet, and audited financial statements from the years 2017 to 2019 of Montosco are attached as **Annexes "B", "B-1", "B-2", "B-3", "B-4" and "B-5"**.

*Meritus Prime Distributions Inc.*

*(i) Nature of business*

Meritus is a domestic corporation registered with the SEC on February 17, 2010, and was incorporated for the primary purpose of buying, selling, exporting, manufacturing, bottling and distribution of all kinds of wines, liquors, beers and other alcoholic and non-alcoholic beverages, etc.

*(ii) Major projects and investment*

Meritus prides itself by carrying the number one bourbon whisky brand in the world, "Jim Beam" and its strong relationship with Beam Suntory group - the third-largest spirits producer in the world. It also represents the portfolio of W. Grants where Glenfiddich, the leading single malt whisky in the world, is among its key brands. Rounding the list for Meritus are Roku and Hendricks- the hottest craft gin brands in the market.

*(iii) List of Subsidiaries and affiliates with percentage of holdings*

Meritus has no subsidiary.

*(iv) Capital Structure*

Type of Security	Amount (in PhP)	Number of Shares
<i>Authorized Capital Stock</i>		
Common Stock	750,000,000.00	7,500,000
<i>Subscribed Shares</i>		
Common Stock	750,000,000.00	7,500,000
<i>Paid-up Capital</i>		
Common Stock	750,000,000.00	7,500,000

Type of Security	Amount (in PhP)
Par Value	

Common Stock	100.00
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(v) Ownership Structure (including percentage of holdings)

Name of Stockholder	Number of Shares	Percentage of Ownership
Cosco Capital, Inc.	7,499,994	100.00%
Lucio L. Co	1	0.00%
Susan P. Co	1	0.00%
Ferdinand Vincent P. Co.	1	0.00%
Pamela Justine P. Co	1	0.00%
Camille Clarisse P. Co	1	0.00%
Katrina Marie P. Co	1	0.00%

(vi) Board of Directors, Principal Officers and Major Shareholders

Board of Directors	
Camille Clarisse P. Co	Chairman of the Board
Pamela Justine P. Co	Director
Ferdinand Vincent P. Co.	Director
Susan P. Co	Director
Lucio L. Co	Director

Officers	
Camille Clarisse P. Co	President
Maridel Behagan	Vice President
Evelyn B. Binanitan	Corporate Secretary
Catherine W. Cai	Treasurer

(x) ***The interest which directors of the parties to the transaction have in the transaction***

Mr. Lucio L. Co is the Chairman of Cosco's Board, and a Director of both Meritus and Da Vinci. He owns 33% of Cosco's outstanding capital stock and has nominal shares in Meritus and is the ultimate beneficial owner of Invescap Incorporated which is the principal stockholder of Da Vinci.

Ms. Susan P. Co is the Vice Chairman of Cosco's Board and owns 24.73% of Cosco's outstanding capital stock. She is also a Director of Meritus and owns nominal share.

Ms. Camille Clarisse P. Co is a Director of Da Vinci, as well as the Chairman of the Board and President of Meritus. She owns 1.48% of Cosco's outstanding capital stock.

Lastly, Atty. Bienvenido E. Laguesma is an Independent Director of both Cosco and Da Vinci.

(xi) ***Statement as to the steps to be taken, if any, to safeguard the interests of the shareholders***

Mr. Lucio L. Co, as the common Director of both parties to the Share Swap Transaction and of Meritus, abstained from voting on the proposed Share

Swap Transaction during the special meeting of Da Vinci's Board held on February 19, 2021. The other shareholders of Meritus have been notified of the proposed Share Swap Transaction.

Atty. Bienvenido E. Laguesma, who is an Independent Director of both Cosco and Da Vinci, also abstained from voting on the proposed share swap.

(xii) ***Any other information necessary to enable the investor to make an informed investment decision***

The latest articles of incorporation, by-laws, general information sheet, and audited financial statements of Meritus Prime are attached as **Annexes "C"**, **"C-1"**, **"C-2"**, **"C-3"**, **"C-4"** and **"C-5"**.

*Premier Wine and Spirits, Inc.*

(i) ***Nature of business***

Premier is a domestic corporation registered with the SEC on June 19, 1996, and was incorporated for the primary purpose of buying, selling, distributing and marketing at wholesale all kinds of goods, commodities and merchandise.

(ii) ***Major projects and investment***

Premier's portfolio has a good balance of spirits, wines as well as specialty beverages. Its key distribution arrangements are with Treasury Wine Estates, the biggest publicly listed wine company in the world, Proximo Spirits of USA, Gruppo Campari of Italy, Jinro of South Korea, among others.

Premier and Pernod Ricard, the second largest spirits company in the world, formed a joint venture partnership, establishing Pernod Ricard Philippines, Inc., to be the marketing and distribution arm of Pernod brands in this market.

Amongst Premier's key brands are Jose Cuervo, the world's leading tequila; Jinro, the top spirits brand in the world; Penfolds, world's most admired wine brand; RedBull, world's number 1 energy drink; and Perrier, the leading sparkling water in the world.

(iii) ***List of Subsidiaries and affiliates with percentage of holdings***

Premier has no subsidiary but it owns 30% equity of Pernod Ricard Philippines, the marketing and distribution arm of Pernod brands in the country.

(iv) ***Capital Structure***

Type of Security	Amount (in PhP)	Number of Shares
<i>Authorized Capital Stock</i>		
Common Stock	150,000,000.00	1,500,000
<i>Subscribed Shares</i>		
Common Stock	150,000,000.00	1,500,000
<i>Paid-up Capital</i>		
Common Stock	150,000,000.00	1,500,000

Type of Security	Amount (in PhP)
<i>Par Value</i>	
Common Stock	100.00

(v) Ownership Structure (including percentage of holdings)

<b>Name of Stockholder</b>	<b>Number of Shares</b>	<b>Percentage of Ownership</b>
Cosco Capital, Inc.	149,999,300	100.00%
Jose Paulino Santamarina	1	0.00%
Robin Derrick Co Chua	1	0.00%
Susan P. Co	1	0.00%
Ferdinand Vincent P. Co	1	0.00%
Pamela Justine P. Co	1	0.00%
Camille Clarisse P. Co	1	0.00%
Katrina Marie P. Co	1	0.00%

(vi) Board of Directors, Principal Officers and Major Shareholders

<b>Board of Directors</b>	
Jose Paulino Santamarina	Chairman of the Board
Robin Derrick Co Chua	Director
Susan P. Co	Director
Ferdinand Vincent P. Co	Director
Pamela Justine P. Co	Director
Camille Clarisse P. Co	Director
Katrina Marie P. Co	Director

<b>Officers</b>	
Jose Paulino Santamarina	President
Evelyn B. Binanitan	Treasurer
Maricel B. Joyag	Corporate Secretary

(xiii) ***The interest which directors of the parties to the transaction have in the transaction***

Mr. Jose Paulino Santamarina is a Director of Da Vinci and at the same time the Chairman of the Board and President of Premier, owning nominal shares in the said companies.

Meanwhile, Ms. Susan P. Co is the Vice Chairman of Cosco's Board and owns 24.73% of Cosco's outstanding capital stock. She is also a Director of Premier and owns nominal share.

Mr. Robin Derrick Co Chua Co is a Director of both Da Vinci and Premier, owning nominal shares in the said companies.

Finally, Ms. Camille Clarisse P. Co is a Director of both Da Vinci and Premier, with nominal shareholding. She owns 1.48% of Cosco's outstanding capital stock.

(xiv) ***Statement as to the steps to be taken, if any, to safeguard the interests of the shareholders***

Mr. Lucio L. Co, as the common Director of both parties to the Share Swap Transaction, abstained from voting on the proposed Share Swap Transaction

during the special meeting of Da Vinci's Board held on February 19, 2021. The other shareholders of Premier have been notified of the proposed Share Swap Transaction.

Atty. Bienvenido E. Laguesma is an Independent Director of both Cosco and Da Vinci. Hence, he likewise abstained from voting on the proposed transaction.

(xv) **Any other information necessary to enable the investor to make an informed investment decision**

The latest articles of incorporation, by-laws, general information sheet, and audited financial statements of Premier are attached as **Annexes "D", "D-1", "D-2", "D-3", "D-4" and "D-5"**.

*Financial Information of Da Vinci, Cosco, Montosco, Meritus and Premier*

Below are comparative tables summarizing the respective financial information of Da Vinci, Cosco, Montosco, Meritus and Premier for the last two fiscal years:

\*Php in millions

<b>2018</b>	<b>Da Vinci</b>	<b>Cosco (as Parent Company)</b>	<b>Montosco</b>	<b>Meritus</b>	<b>Premier</b>
Net sales or operating revenues (in PhP)	0.00	1,053,754,323	5,291,847,624	923,272,269	2,368,580,890
Income (loss) from continuing operations (in PhP)	-947,771.35	733,312,220	880,546,741	84,494,041	87,951,281
Long-term obligations and redeemable preferred stock (in PhP)	0.00	4,738,262,456	11,747,820	3,678,442	13,255,672

<b>2019</b>	<b>Da Vinci</b>	<b>Cosco (as Parent Company)</b>	<b>Montosco</b>	<b>Meritus</b>	<b>Premier</b>
Net sales or operating revenues (in PhP)	0.00	1,802,368,868	8,155,525,111	958,828,756	1,603,043,62
Income (loss) from continuing operations (in PhP)	-1,048,020.75	1,437,116,666	1,479,709,485	109,878,189	96,183,324
Long-term obligations and redeemable preferred stock (in PhP)	0.00	4,694,577,373	674,969,257	760,153	10,471,977

Below is a table summarizing the status of the shares of Da Vinci, Cosco, Montosco, Meritus and Premier on a historical and pro forma basis, for the last two fiscal years:

<b>2018</b>	<b>Cosco (as Parent Company)</b>	<b>Da Vinci</b>	<b>Montosco</b>	<b>Meritus</b>	<b>Premier</b>
Book Value per share (in PhP)	12.08	0.014	312.48	144.30	596.50
Cash Dividends declared per share (in PhP)	0.1	0.00	13.33	3.33	0.00
Income (loss) per share from continuing operations (in PhP)	0.20	-0.008	117.41	11.27	58.63

<b>2019</b>	<b>Cosco (as Parent Company)</b>	<b>Da Vinci</b>	<b>Montosco</b>	<b>Meritus</b>	<b>Premier</b>
Book Value per share (in PhP)	12.08	0.013	453.66	152.60	627.15
Cash Dividends declared per share (in PhP)	0.12	0.00	6.67	0.00	0.00
Income (loss) per share from continuing operations (in PhP)	0.198	-0.0009	197.30	14.65	64.12

*Transactions of the Corporation with each of Cosco, Montosco, Meritus and Premier*

During the past two fiscal years, the Corporation did not have any transactions with Cosco, Montosco, Meritus and Premier. Cosco and Da Vinci did not enter into any arrangement, contract, understanding or negotiation in the past, other than the proposed Share Swap Transaction.

**(j) The interest which directors of the parties to the transaction have in the transaction**

Mr. Lucio L. Co is the Chairman of both Da Vinci's and Cosco's Board. He owns 33% of Cosco's outstanding capital stock and is the ultimate beneficial owner of Invescap Incorporated which is the principal stockholder of Da Vinci. He is also a Director of Montosco and Meritus.

Ms. Susan P. Co is the Vice Chairman of Cosco's Board and owns 24.73% of Cosco's outstanding capital stock. She is also a Director of Montosco, Meritus and Premier, who owns nominal shares in the said companies.

Ms. Camille Clarisse P. Co is a Director of both Da Vinci, Montosco and Premier, with nominal shareholdings. She owns 1.48% of Cosco's outstanding capital stock. She is also the Chairman of the Board and President of Meritus.

Mr. Robin Derrick Co Chua Co is a Director of both Da Vinci and Premier, owning nominal shares in the said companies.

Ms. Jannelle O. Uy is a Director of Da Vinci, as well as the Chairman of the Board and President of Montosco. She has nominal shares in both companies.

Lastly, Atty. Bienvenido E. Laguesma is an Independent Director of both Cosco and Da Vinci.

**(k) Statement as to the steps to be taken, if any, to safeguard the interests of the shareholders**

A stockholders' meeting will be held in May 2021 for the purpose of presenting to the stockholders the matters set forth above, among other matters, for their approval.

A copy of the Amended Comprehensive Corporate Disclosure will be attached to the notice of the stockholders' meeting, which will be sent out to the stockholders.

**(l) Any other information necessary to enable the investor to make an informed investment decision**

To see the ownership structure of the Corporation before and after the transaction, please see attached "**Annex E and E-1**".

SUBSCRIPTION CONTRACT

KNOWN ALL PERSONS BY THESE PRESENT:

This Subscription Contract is made and entered this 28 day of January 2021 by and between:

JAN 28 2021

DA VINCI CAPITAL HOLDINGS, INC., a corporation duly organized and existing under the laws of the Philippines with principal office address at No. 900 Romualdez St., Paco, Manila represented herein by its Chairman and President, Mr. Lucio L. Co (referred herein as the "Issuer")

-and-

INVESCAP INCORPORATED, a corporation duly organized and existing under the laws of the Philippines with principal office address at No. 1343 Merced St., Paco, Manila represented herein by its Vice-President, Ms. Ma. Editha D. Alcantara (referred herein as the "Subscriber")

WITNESSETH THAT:

WHEREAS, the Issuer has an authorized capital of Three Hundred Twenty-Seven Million Six Hundred Thousand Pesos (Php327,600,000.00) divided into One Billion Two Hundred Million (1,200,000) common shares with par value of Two and Three-Tenths Centavos (Php0.023) per share, and Three Billion (3,000,000,000) preferred shares with par value of Ten Centavos (Php0.10) per share;

WHEREAS, on October 26, 2020 and November 20, 2020 remote meetings of the Board of Directors and Stockholders of the Corporation, they have approved the increase of the authorized capital stock of the Corporation to Two Billion Pesos (Php2,000,000,000.00) divided into Twenty Billion (20,000,000,000) common shares at a par value of Ten Centavos (Php0.10).

WHEREAS, the Issuer has offered to sell shares of stock of the Corporation amounting to 25% of the increase of the capital stock, or Four Hundred Eighteen Million One Hundred Thousand Pesos (Php418,100,000.00) to the Subscriber, being the majority stockholder, and the Subscriber is willing and ready to buy the same.

NOW THEREFORE, in consideration of the foregoing and the subscription price indicated hereunder:

- 1. The Issuer has issued to the Subscriber the following shares of stock:

No. of Shares Subscribed	Amount Paid
4,181,000,000 @ P0.10 per share	P104,525,000.00

- 2. The Subscriber has paid 25% of the subscription amount to the Issuer in the amount of One Hundred Four Million Five Hundred Twenty-Five Thousand Pesos (P104,525,000.00) in cash.

*[Handwritten signature]*



3. The said amount paid was duly received by the Treasurer of the Issuer.
4. The parties hereby confirm the foregoing upon the signing of this subscription contract.

**IN WITNESS WHEREOF**, the parties have hereunto signed this Subscription Contract on this 28 day of January 2021 in the City of Manila.

**DA VINCI CAPITAL HOLDINGS, INC.**  
Issuer

**INVESCAP INCORPORATED**  
Subscriber

By:   
**LUCIO L. CO**  
Chairman/President

By:   
**MA. EDITHA D. ALCANTARA**  
Vice-President

Signed in the presence of:

**ACKNOWLEDGEMENT**

Republic of the Philippines)  
City of Manila ) S.S  
x-----x

**BEFORE ME**, a Notary of Public in and for City of Manila, Philippines, this 28 day of January 2021 personally appeared:

Name  
**Lucio L. Co**  
Representing Da Vinci Capital Holdings, Inc.

Competent Evidence of Identity  
TIN No. 

**Ma. Editha D. Alcantara**  
Representing Invescap Incorporated

TIN No. 

All known to me and to me known to be the same persons who executed the foregoing Subscription Contract and they acknowledged to me that the same is their free and voluntarily act and deed and of the corporations they represent.

**IN WITNESS WHEREOF**, I have hereunto set my hand and affixed my notarial seal on this 28 day of January 2021 in the City of Manila.

Doc. No. 244  
Page No. 50  
Book No. XVI  
Series of 2021.

**CAROLINE G. EXCONDE**  
Notary Public for the City of Manila  
Commission No. 2020-085 until December  
Roll No. 3535205-02-2008  
FBP No. 09937012-18-2019/PPLM  
PTR No. 9097709/12-18-2019/Manila  
MCLE Compliance No. VI-0024755/05-17-  
No. 900 Bonualdez St., Paco, Manila 1007



REPUBLIC OF THE PHILIPPINES  
SECURITIES AND EXCHANGE COMMISSION  
Ground Floor, Secretariat Building, PICC  
City Of Pasay, Metro Manila

"ANNEX B"

COMPANY REG. NO. CS200812528

CERTIFICATE OF FILING  
OF  
AMENDED ARTICLES OF INCORPORATION

KNOW ALL PERSONS BY THESE PRESENTS:

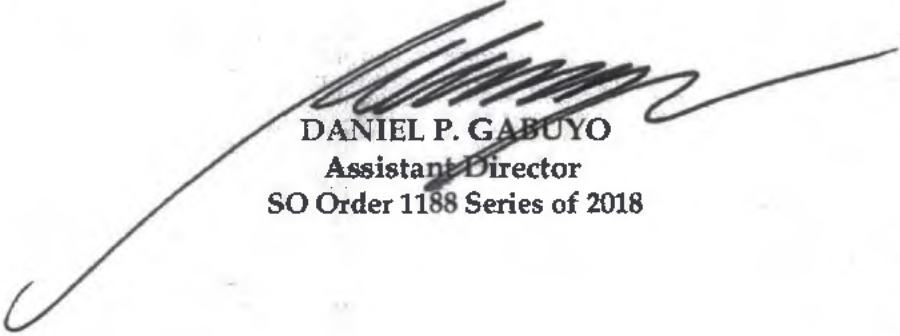
This is to certify that the amended articles of incorporation of the

**MONTOSCO, INC.**  
(Amending Article III thereof)

copy annexed, adopted on September 14, 2018 by majority vote of the Board of Directors and by the vote of the stockholders owning or representing at least two-thirds of the outstanding capital stock, and certified under oath by the Corporate Secretary and a majority of the Board of Directors of the corporation was approved by the Commission on this date pursuant to the provision of Section 16 of the Corporation Code of the Philippines, Batas Pambansa Blg. 68, approved on May 1, 1980, and copies thereof are filed with the Commission.

Unless this corporation obtains or already has obtained the appropriate Secondary License from this Commission, this Certificate does not authorize it to undertake business activities requiring a Secondary License from this Commission such as, but not limited to acting as: broker or dealer in securities, government securities eligible dealer (GSED), investment adviser of an investment company, close-end or open-end investment company, investment house, transfer agent, commodity/financial futures exchange/broker/merchant, financing/lending company and time shares/club shares/membership certificates issuers or selling agents thereof; nor to operate a fiat money to virtual currency exchange. Neither does this Certificate constitute as permit to undertake activities for which other government agencies require a license or permit.

IN WITNESS WHEREOF, I have set my hand and caused the seal of this Commission to be affixed to this Certificate at Pasay City, Metro Manila, Philippines, this 15<sup>th</sup> day of April, Twenty Nineteen.

  
DANIEL P. GABUYO  
Assistant Director  
SO Order 1188 Series of 2018

STA/qba

# COVER SHEET

## for Applications at COMPANY REGISTRATION AND MONITORING DEPARTMENT

Nature of Application

AMENDMENT

SEC Registration Number

C S 2 0 0 8 1 2 5 2 8

Former Company Name

M O N T O S C O , I N C .

AMENDED TO:  
New Company Name

Principal Office (No./Street/Barangay/City/Town)Province)

U N I T 1 5 0 1 F E D E R A L T O W E R

D A S M A R I Ñ A S S T . , B I N O N D O , M A N I L A

ZIP CODE  
1 0 0 6

### COMPANY INFORMATION

Company Email Address

inquire@montosco.com.ph

Company's Telephone Number/s

243-3843

Mobile Number

09178327585

### CONTACT PERSON INFORMATION

The designated person **MUST** be a Director/Trustee/Partner/Officer/Resident Agent of the Corporation

Name of Contact Person

Evelyn B. Binanitan

Email Address

Telephone Number/s

(02) 522-8801

Mobile Number

Contact Person's Address

No. 900 Romualdez St., Paco, Manila

To be accomplished by CRMD Personnel

Date

Signature

Assigned Processor

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Document I.D.

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Received by Corporate Filing and Records Division (CFRD)

Forwarded to:

- Corporate and Partnership Registration Division
- Green Lane Unit
- Financial Analysis and Audit Division
- Licensing Unit
- Compliance Monitoring Division

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**AMENDED ARTICLES OF INCORPORATION**

**OF**

**MONTOSCO, INC.**

**KNOW ALL MEN BY THESE PRESENTS:**

The undersigned incorporators, all of legal age, and all of whom are citizens and residents of the Republic of the Philippines, have this day voluntarily agreed to form a stock corporation under the laws of the Republic of the Philippines.

**AND WE HEREBY CERTIFY:**

**FIRST:** The name of this corporation shall be:

**MONTOSCO, INC.**

**SECOND:** A. That the primary purpose of this corporation is

To engage in the business of trading goods such as consumer goods (canned goods, houseware, toiletries, etc.) on the wholesale/retail basis.

B. That the corporation shall have all the express powers of a corporation as provided for under Section 36 of the Corporation Code of the Philippines.

**THIRD: That the place where the principal office of the corporation is to be established is at Unit 1501 Federal Tower, Dasmariñas St., Brgy. 282, Zone 026, San Nicolas, Manila 1010.**

(As amended by all the members of the Board of Directors and all stockholders representing at least two-thirds (2/3) of the entire issued and outstanding capital stock at a special meeting held on September 14, 2018).

**FOURTH:** That the term of for which the corporation is to exist is fifty (50) years from the year from and after the date of issuance of the certificate of incorporation.

**FIFTH:** That the names, nationalities, and residents of the incorporators are as follows;

Name	Nationality	Residence
Baby Gerlie I. Sacro	Filipino	[REDACTED]
Rachelle M. Tan	Filipino	[REDACTED]
Maricel Bueno	Filipino	[REDACTED]
Wendy A. Valmocina	Filipino	[REDACTED]
Ariane Agregado	Filipino	[REDACTED]

**SIXTH:** That the number of directors of said corporation shall be Five (5) and that the names, nationalities and residences of the first directors who are to serve until their successors are elected and qualified as provided by the by-laws are as follows:

Baby Gerlie I. Sacro	Filipino	██
Rachelle M. Tan	Filipino	██ ██
Maricel Bueno	Filipino	██
Wendy A. Valmocina	Filipino	██
Ariane Agregado	Filipino	██

**SEVENTH:** That the authorized capital stock of the corporation is Seven Hundred Fifty Million (P750,000,000.00) pesos in lawful money of the Philippines, divided into Seven Million Five Hundred (7,500,000,000) shares with the par value of One Hundred Pesos (P100.00) each.

(As amended by all the members of the Board of Directors and all stockholders representing at least two-thirds (2/3) of the entire issued and outstanding capital stock at a special meeting held on December 08, 2016).

**EIGHT:** That at least 25% of the authorized capital stock has been subscribed and at least 25% of the total subscription has been paid as follows:

Name	Nationality	No. of Shares Subscribed	Amount Subscribed	Amount Paid
Baby Gerlie I. Sacro	Filipino	5,000	500,000.00	125,500.00
Rachelle Tan	Filipino	5,000	500,000.00	125,500.00
Maricel Bueno	Filipino	5,000	500,000.00	125,000.00
Wendy Valmocina	Filipino	5,000	500,000.00	125,000.00
Ariane Agregado	Filipino	<u>5,000</u>	<u>500,000.00</u>	<u>125,000.00</u>
Total		25,000	2,500,000.00	625,000.00

**NINTH:** No transfer of stock or interest which would reduce the stock ownership of Filipino citizens to less than the required percentage of the capital stock as provided by existing laws shall be allowed or permitted to be recorded in the proper books of the corporation and this restriction shall be indicated in all or its stock certificates issued by the corporation.

**TENTH:** That Rachelle Tan has been elected by the subscribers as treasurer of the Corporation to act as such until his/her successor is duly elected and qualified in accordance with the by-laws; and that as such Treasurer, he/she has been authorized to receive for and in the name and for the benefit of the corporation, all subscriptions paid by the subscribers.

**ELEVENTH:** That the corporation manifests its willingness to change its corporate name in the event another person, firm or entity has acquired a prior right to use the said firm name or one deceptively or confusingly similar to it.

In Witness whereof, we have set out hands this 29<sup>th</sup> day of July, 2008 at Manila.

(Signed)  
BABY GERLIE I. SACRO  
██████████

(Signed)  
RACHELLE TAN  
██████████

(Signed)  
MARICEL BUENO  
██████████

(Signed)  
WNEDY VALMOCINA  
██████████

(Signed)  
ARIANE L. AGREGADO  
██████████

WITNESSES:

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**ACKNOWLEDGEMENT**

Republic of the Philippines)  
Manila. ) S.S.

**BEFORE ME**, a Notary Public in and for Manila Philippines, this 20<sup>th</sup> day of March, 2006, personally appeared:

Name	Community Tax Certificate No.	Date & Place Issued
Baby Gerlie I. Sacro	13416098	January 11, 2008/Manila
Rachelle Tan	13260163	January 30, 2008/Manila
Maricel Bueno	12249799	January 30, 2008/Manila
Wendy Valmocina	12249819	January 30, 2008/Manila
Ariane Agregado	12249808	January 30, 2008/Manila

all known to me and to me known to be the same persons who executed the foregoing ARTICLES OF INCORPORATION and acknowledged to me that the same is their free and voluntarily act and deed.

**IN TESTIMONY WHEREOF**, I have hereunto set my hand and affixed my notarial seal on the date and at the first above written.

Doc. No. 461;  
Page No. 93;  
Book No. 10;  
Series of 2008

(SIGNED)  
ATTY. RICHARD L. ANOLIN  
NOTARY PUBLIC  
Until December 31, 2009  
IBP LIFETIME NO. 05179/02-12-05/MLA  
PTR NO. 6247984/1-7-08/MLA  
ROLL NO. 33596

# "ANNEX B-1"

(STOCK)

BY - LAWS

OF

**MONTOSCO, INC.**

(Name of Corporation)

## ARTICLE I

### SUBSCRIPTION, ISSUANCE AND TRANSFER OF SHARES

*Montosco*  
*conformed*  
*copy*

**Section 1. Subscriptions -** Subscribers to the capital stock of the corporation shall pay the value of the stock in accordance with the terms and conditions prescribed by the Board of Directors. Unpaid subscriptions shall not earn interest unless determined by the Board of Directors.

**Section 2. Certificate -** The stockholder shall be entitled to one or more certificates for fully paid stock subscription in his name in the books of the corporation. The certificates shall contain the matters required by law and the Articles of Incorporation. They shall be in such form and design as may be determined by the Board of Directors and numbered consecutively. The certificate shall be signed by the President, countersigned by the Secretary or Assistant Secretary, and sealed with the corporate seal.

*Secretary*  
*Montosco*

**Section 3. Transfer of Shares -** Subject to the restrictions, terms and conditions contained in the Articles of Incorporation, shares may be transferred, sold, assigned or pledged by delivery of the certificates duly indorsed by the stockholder, his attorney-in-fact, or other legally authorized person. The transfer shall be valid and binding on the corporation only upon record thereof in the books of the corporation. The Secretary shall cancel the stock certificates and issue new certificates to the transferee.

*Montosco*

No share of stock against which the corporation holds unpaid claim shall be transferable in the books of the corporation.

All certificates surrendered for transfer shall be stamped "Cancelled" on the face thereof, together with the date of cancellation, and attached to the corresponding stub with the certificate book.

**Section 4. Lost Certificates -** In case any stock certificate is lost, stolen, or destroyed, a new certificate may be issued in lieu thereof in accordance with the procedure prescribed under Section 73 of the Corporation Code.

## ARTICLE II

### MEETINGS OF STOCKHOLDERS

**Section 1. Annual / Regular Meetings -** The annual/regular meetings of stockholders shall be held at the principal office on June 30 of each year, if legal holiday, then on the day following.

**Section 2. Special Meeting -** The special meetings of stockholders, for any purpose or purposes, may at any time be called by any of the following: (a) Board of Directors, at its own instance, or at the written request of stockholders representing a majority of the outstanding capital stock, (b) President.

**Section 3. Place of Meeting -** Stockholders meetings, whether regular or special, shall be held in the principal office of the corporation or at any place designated by the Board of Directors in the city or municipality where the principal office of the corporation is located.

**Section 4. Notice of Meeting -** Notices for regular or special meetings of stockholders may be sent by the Secretary by personal delivery or by mail at least two (2) weeks prior to the date of the meeting to each stockholder of record at his last known address. The notice shall state the place, date and hour of the meeting, and the purpose or purposes for which the meeting is called.

When the meeting of stockholders is adjourned to another time or place, it shall not be necessary to give any notice of the adjourned meeting if the time and place to which the meeting is adjourned are announced at the meeting at which the adjournment is taken. At the reconvened meeting, any business may be transacted that might have been transacted on the original date of the meeting.

**Section 5. Quorum -** Unless otherwise provided by law, in all regular or special meeting of stockholders, a majority of the outstanding capital stock must be present or represented in order to constitute a quorum. If no quorum is constituted, the meeting shall be adjourned until the requisite amount of stock shall be present.

**Section 6. Conduct of Meeting -** Meeting of the stockholders shall be presided over by the President, or in his absence, by a chairman to be chosen by the stockholders. The Secretary, shall act as Secretary of every meetings, but if not present, the chairman of the meeting shall appoint a secretary of the meeting.

**Section 7. Manner of Voting -** At all meetings of stockholders, a stockholder may vote in person or by proxy. Unless otherwise provided in the proxy, it shall be valid only for the meeting at which it has been presented to the Secretary. All proxies must be in the hands of the Secretary before the time set for the meeting. Proxies filed with the Secretary may be revoked by the stockholders either in an instrument in writing duly presented and recorded with the Secretary, prior to a scheduled meeting or by their personal presence at the meeting.



**Section 8. Closing of Transfer Books or Fixing of Record Date -** For the purpose of determining the stockholders entitled to notice of, or to vote at, any meeting of stockholders or any adjournment thereof or to receive payment of any dividend, the Board of Directors may provide that the stock and transfer books be closed for ten (10) working days immediately preceding such meeting.

### ARTICLE III

#### BOARD OF DIRECTORS

**Section 1. Powers of the Board -** Unless otherwise provided by law, the corporate powers of the corporation shall be exercised, all business conducted and all property of the corporation controlled and held by the Board of Directors to be elected by and from among the stockholders. Without prejudice to such powers as may be granted by law, the Board of Directors shall also have the following powers:

- a.) From time to time, to make and change rules and regulations not inconsistent with these by-laws for the management of the corporation's business and affairs;
- b.) To purchase, receive, take or otherwise acquire for and in the name of the corporation, any and all properties, rights, or privileges, including securities and bonds of other corporations, for such consideration and upon such terms and conditions as the Board may deem proper or convenient;
- c.) To invest the funds of the corporation in other corporations or for purposes other than those for which the corporation was organized, subject to such stockholders' approval as may be required by law;
- d.) To incur such indebtedness as the Board may deem necessary, to issue evidence of indebtedness including without limitation, notes, deeds of trust, bonds, debentures, or securities, subject to such stockholders approval as may be required by law, and/or pledge, mortgage, or otherwise encumber all or part of the properties of the corporation;
- e.) To establish pension, retirement, bonus, or other types of incentives or compensation plans for the employees, including officers and directors of the corporation;
- f.) To prosecute, maintain, defend, compromise or abandon any lawsuit in which the corporation or its officer are either plaintiffs or defendants in connection with the business of the corporation;

*Montgomery*  
*Boyd*  
*Spencer*  
*Montgomery*  
*Boyd*

g.) To delegate, from time to time, any of the powers of the Board which may lawfully be delegated in the course of the current business of the corporation to any standing or special committee or to any officer or agent and to appoint any person to be agent of the corporation with such powers and upon such terms as may be deemed fit;

h.) To implement these by-laws and to act on any matter not covered by these by-laws, provided such matter does not require the approval or consent of the stockholders under the Corporation Code.

*Nonotmema*  
**Section 2. Election and Term -** The Board of Directors shall be elected during each regular meeting of stockholders and shall hold office for one (1) year and until their successors are elected and qualified.

*Handwritten signature*  
**Section 3. Vacancies -** Any vacancy occurring in the Board of Directors other than by removal by the stockholders or by expiration of term, may be filled by the vote of at least a majority of the remaining directors, if still constituting a quorum; otherwise, the vacancy must be filled by the stockholders at a regular or at any special meeting of stockholders called for the purpose. A director so elected to fill a vacancy shall be elected only for the unexpired term of his predecessor in office.

*Handwritten signature*  
The vacancy resulting from the removal of a director by the stockholders in the manner provided by law may be filled by election at the same meeting of stockholders without further notice, or at any regular or at any special meeting of stockholders called for the purpose, after giving notice as prescribed in these by-laws.

*Handwritten signature*  
**Section 4. Meetings -** Regular meetings of the Board of Directors shall be held once a month on such dates and at places as may be called by the Chairman of the Board, or upon the request of a majority of the Directors.

*Handwritten signature*  
**Section 5. Notice -** Notice of the regular or special meeting of the Board, specifying the date, time and place of the meeting, shall be communicated by the Secretary to each director personally, or by telephone, telegram, or by written message. A director may waive this requirement, either expressly or impliedly.

*Handwritten signature*  
**Section 6. Quorum -** A majority of the number of directors as fixed in the Articles of Incorporation shall constitute a quorum for the transaction of corporate business and every decision of at least a majority of the directors present at a meeting at which there is a quorum shall be valid as a corporate act, except for the election of officers which shall require the vote of a majority of all the members of the Board.

*Handwritten signature*  
**Section 7. Conduct of the Meetings -** Meetings of the Board of Directors shall be presided over by the Chairman of the Board, or in his absence, by any other director chosen by the Board. The Secretary, shall act as secretary of every meeting, if not present, the Chairman of the meeting, shall appoint a secretary of the meeting.

**Section 8. Compensation** - By- resolution of the Board, each director shall receive a reasonable per diem allowance for his attendance at each meeting of the Board. As compensation, the Board shall receive and allocate an amount of not more than ten percent (10%) of the net income before income tax of the corporation during the preceding year. Such compensation shall be determined and apportioned among the directors in such manner as the Board may deem proper, subject to the approval of stockholders representing at least a majority of the outstanding capital stock at a regular or special meeting of the stockholders.

#### ARTICLE IV

#### OFFICER

**Section 1. Election / Appointment** - Immediately after their election, the Board of Directors shall formally organize by electing the President, the Vice-President, the Treasurer, and the Secretary at said meeting.

The Board may, from time to time, appoint such other officers as it may determine to be necessary or proper. Any two (2) or more positions may be held concurrently by the same person, except that no one shall act as President and Treasurer or Secretary at the same time.

**Section 2. President** - The President shall be the Chief Executive Officer of the corporation and shall exercise the following functions:

- a.) To preside at the meetings of the stockholders;
- b.) To initiate and develop corporate objectives and policies and formulate long range projects, plans and programs for the approval of the Board of Directors, including those for executive training, development and compensation;
- c.) To supervise and manage the business affairs of the corporation upon the direction of the Board of Directors;
- d.) To implement the administrative and operational policies of the corporation under his supervision and control;
- e.) To appoint, remove, suspend or discipline employees of the corporation, prescribe their duties, and determine their salaries;
- f.) To oversee the preparation of the budgets and the statements of accounts of the corporation;
- g.) To represent the corporation at all functions and proceedings;

h.) To execute on behalf of the corporation all contracts, agreements and other instruments affecting the interests of the corporation which require the approval of the Board of Directors.

i.) To make reports to the Board of Directors and stockholders;

j.) To sign certificates of stock;

k.) To perform such other duties as are incident to his office or are entrusted to him by the Board of Directors.

*Marafina*  
**Section 3.** The Vice-President - He shall, if qualified, act as President in the absence of the latter. He shall have such other powers and duties as may from time to time be assigned to him by the Board of Directors or by the President.

**Section 4.** The Secretary - The Secretary must be a resident and a citizen of the Philippines. He shall have the following specific powers and duties:

*for the*  
a.) To record the minutes and transactions of all meetings of the directors and the stockholders and to maintain minute books of such meetings in the form and manner required by law;

b.) To keep record books showing the details required by law with respect to the stock certificates of the corporation, including ledgers and transfer books showing all shares of the corporation subscribed, issued and transferred;

*Secretary*  
c.) To keep the corporate seal and affix it to all papers and documents requiring a seal, and to attest by his signature all corporate documents requiring the same;

d.) To attend to the giving and serving of all notices of the corporation required by law or these by-laws to be given;

*and*  
e.) To certify to such corporate acts, countersign corporate documents or certificates, and make reports or statements as may be required of him by law or by government rules and regulations.

*for the*  
f.) To act as inspector at the election of directors and, as such, to determine the number of shares of stock outstanding and entitled to vote, the shares of stock represented at the meeting, the existence of a quorum, the validity and effect of proxies, and to receive votes, ballots or consents, hear and determine questions in connection with the right to vote, count and tabulate all votes, determine the result, and do such acts as are proper to conduct the election.

*for the*  
g.) To perform such other duties as are incident to his office or as may be assigned to him by the Board of Directors or the President.



**Section 5. The Treasurer -** The Treasurer of the corporation shall have the following duties:

- a.) To keep full and accurate accounts of receipts and disbursements in the books of the corporation;
- b.) To have custody of, and be responsible for, all the funds, securities and bonds of the corporation;
- c.) To deposit in the name and to the credit of the corporation, in such bank as may be designated from time to time by the Board of Directors, all the moneys, funds, securities, bonds, and similar valuable effects belonging to the corporation which may come under his control;
- d.) To render an annual statements showing the financial condition of the corporation and such other financial reports as the Board of Directors, or the President may, from time to time require;
- e.) To prepare such financial reports, statements, certifications and other documents which may, from time to time, be required by government rules and regulations and to submit the same to the proper government agencies;
- f.) To exercise such powers and perform such duties and functions as may be assigned to him by the President.

**Section 6. Term of Office -** The term of office of all officers shall be one (1) year and until their successors are duly elected and qualified.

**Section 7. Vacancies -** If any position of the officers becomes vacant by reason of death, resignation, disqualification or for any other cause, the Board of Directors, by majority vote may elect a successor who shall hold office for the unexpired term.

**Section 8. Compensation -** The officers shall receive such remuneration as the Board of Directors may determine. A director shall not be precluded from serving the corporation in any other capacity as an officer, agent or otherwise, and receiving compensation therefor.

## ARTICLE V

### OFFICES

**Section 1.** The principal office of the corporation shall be located at the place stated in Article III of the Articles of Incorporation. The corporation may have such other branch offices, either within or outside the Philippines as the Board of Directors may designate.

ARTICLE VI

AUDIT OF BOOKS, FISCAL YEAR AND DIVIDENDS

Section 1. External Auditor - At the regular stockholders' meeting, the external auditor of the corporation for the ensuing year shall be appointed. The external auditor shall examine, verify and report on the earnings and expenses of the corporation.

Section 2. Fiscal Year - The fiscal year of the corporation shall begin on the first day of January and end on the last day of December of each year.

Section 3. Dividends - Dividends shall be declared and paid out of the unrestricted retained earnings which shall be payable in cash, property, or stock to all stockholders on the basis of outstanding stock held by them, as often and at such times as the Board of Directors may determine and in accordance with law.

ARTICLE VII

SEAL

Section 1. Form and Inscriptions - The corporate seal shall be determined by the Board of Directors.

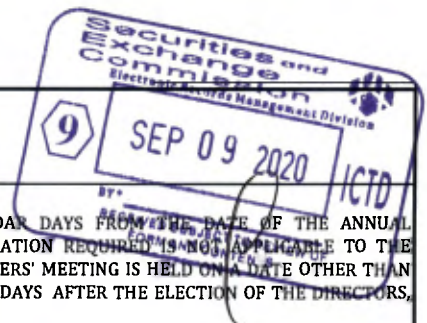
ARTICLE VIII

AMENDMENTS

Section 1. These by-laws may be amended or repealed by the affirmative vote of at least a majority of the Board of Directors and the stockholders representing a majority of the outstanding capital stock at any stockholders' meeting called for that purpose. However, the power to amend, modify, repeal or adopt new by-laws may be delegated to the Board of Directors by the affirmative vote of stockholders representing not less than two-thirds of the outstanding capital stock; provided, however, that any such delegation of powers to the Board of Directors to amend, repeal or adopt new by-laws may be revoked only by the vote of stockholders representing a majority of the outstanding capital stock at a regular or special meeting.



# "ANNEX B-2"



## GENERAL INFORMATION SHEET (GIS)

FOR THE YEAR 2020

STOCK CORPORATION

### GENERAL INSTRUCTIONS:

- FOR USER CORPORATION: THIS GIS SHOULD BE SUBMITTED WITHIN THIRTY (30) CALENDAR DAYS FROM THE DATE OF THE ANNUAL STOCKHOLDERS' MEETING. DO NOT LEAVE ANY ITEM BLANK. WRITE "N.A." IF THE INFORMATION REQUIRED IS NOT APPLICABLE TO THE CORPORATION OR "NONE" IF THE INFORMATION IS NON-EXISTENT. IF THE ANNUAL STOCKHOLDERS' MEETING IS HELD ON A DATE OTHER THAN THAT STATED IN THE BY-LAWS, THE GIS SHALL BE SUBMITTED WITHIN THIRTY (30) CALENDAR DAYS AFTER THE ELECTION OF THE DIRECTORS, TRUSTEES AND OFFICERS OF THE CORPORATION AT THE ANNUAL MEMBERS' MEETING.
- IF NO MEETING IS HELD, THE CORPORATION SHALL SUBMIT THE GIS NOT LATER THAN JANUARY 30 OF THE FOLLOWING YEAR. HOWEVER, SHOULD AN ANNUAL STOCKHOLDERS' MEETING BE HELD THEREAFTER, A NEW GIS SHALL BE SUBMITTED/FILED.
- THIS GIS SHALL BE ACCOMPLISHED IN ENGLISH AND CERTIFIED AND SWORN TO BY THE CORPORATE SECRETARY OF THE CORPORATION.
- THE SEC SHOULD BE TIMELY APPRISED OF RELEVANT CHANGES IN THE SUBMITTED INFORMATION AS THEY ARISE. FOR CHANGES RESULTING FROM ACTIONS THAT AROSE BETWEEN THE ANNUAL MEETINGS, THE CORPORATION SHALL SUBMIT AMENDED GIS CONTAINING THE NEW INFORMATION TOGETHER WITH A COVER LETTER SIGNED THE CORPORATE SECRETARY OF THE CORPORATION. THE AMENDED GIS AND COVER LETTER SHALL BE SUBMITTED WITHIN SEVEN (7) DAYS AFTER SUCH CHANGE OCCURED OR BECAME EFFECTIVE.
- SUBMIT FOUR (4) COPIES OF THE GIS TO THE RECEIVING SECTION AT THE SEC MAIN OFFICE, OR TO SEC SATELLITE OFFICES OR EXTENSION OFFICES. ALL COPIES SHALL UNIFORMLY BE ON A4 OR LETTER-SIZED PAPER. THE PAGES OF ALL COPIES SHALL USE ONLY ONE SIDE
- ONLY THE GIS ACCOMPLISHED IN ACCORDANCE WITH THESE INSTRUCTIONS SHALL BE CONSIDERED AS HAVING BEEN FILED.
- THIS GIS MAY BE USED AS EVIDENCE AGAINST THE CORPORATION AND ITS RESPONSIBLE DIRECTORS/OFFICERS FOR ANY VIOLATION OF EXISTING LAWS, RULES AND REGULATIONS

===== PLEASE PRINT LEGIBLY =====

<b>CORPORATE NAME:</b> MONTOSCO, INC.		<b>DATE REGISTERED:</b> August 13, 2008
<b>BUSINESS/TRADE NAME:</b> MONTOSCO, INC.		<b>FISCAL YEAR END:</b> December 31st
<b>SEC REGISTRATION NUMBER:</b> CS200812528		<b>CORPORATE TAX IDENTIFICATION NUMBER (TIN):</b> 007-097-056
<b>DATE OF ANNUAL MEETING PER BY-LAWS:</b> 30th day of June		<b>WEBSITE/URL ADDRESS:</b> N/A
<b>ACTUAL DATE OF ANNUAL MEETING:</b> August 18, 2020		<b>E-MAIL ADDRESS:</b> N/A
<b>COMPLETE PRINCIPAL OFFICE ADDRESS:</b> Unit 1501 Federal Tower, Dasmariñas St., San Nicolas, Manila		<b>FAX NUMBER:</b> (02) 8353-9680
<b>COMPLETE BUSINESS ADDRESS:</b> Unit 1501 Federal Tower, Dasmariñas St., San Nicolas, Manila		<b>TELEPHONE NUMBER(S):</b> (02) 8243-5530 / 8243-8343
<b>NAME OF EXTERNAL AUDITOR &amp; ITS SIGNING PARTNER:</b> R.G. Manabat & Company / Gregorio I. Sambrano, Jr.		<b>SEC ACCREDITATION NUMBER (if applicable):</b> N/A
<b>PRIMARY PURPOSE/ACTIVITY/INDUSTRY PRESENTLY ENGAGED IN:</b> To engage in the business of trading goods such as consumer goods on wholesale/retail basis	<b>INDUSTRY CLASSIFICATION:</b> N/A	<b>GEOGRAPHICAL CODE:</b> N/A

### ===== INTERCOMPANY AFFILIATIONS =====

PARENT COMPANY	SEC REGISTRATION NO.	ADDRESS
Cosco Capital, Inc.	147669	No. 900 Romualdez St., Paco, Manila
SUBSIDIARY/AFFILIATE	SEC REGISTRATION NO.	ADDRESS
N/A	N/A	N/A

NOTE: USE ADDITIONAL SHEET IF NECESSARY



**GENERAL INFORMATION SHEET**

**STOCK CORPORATION**

===== PLEASE PRINT LEGIBLY =====

**Corporate Name:** **MONTOSCO, INC.**

**A. Is the Corporation a covered person under the Anti Money Laundering Act (AMLA), as amended? (Rep. Acts. 9160/9164/10167/10365)**     Yes     No

**Please check the appropriate box:**

<p><b>1.</b></p> <p><input type="checkbox"/> a. Banks</p> <p><input type="checkbox"/> b. Offshore Banking Units</p> <p><input type="checkbox"/> c. Quasi-Banks</p> <p><input type="checkbox"/> d. Trust Entities</p> <p><input type="checkbox"/> e. Non-Stock Savings and Loan Associations</p> <p><input type="checkbox"/> f. Pawnshops</p> <p><input type="checkbox"/> g. Foreign Exchange Dealers</p> <p><input type="checkbox"/> h. Money Changers</p> <p><input type="checkbox"/> i. Remittance Agents</p> <p><input type="checkbox"/> j. Electronic Money Issuers</p> <p><input type="checkbox"/> k. Financial Institutions which Under Special Laws are subject to Bangko Sentral ng Pilipinas' (BSP) supervision and/or regulation, including their subsidiaries and affiliates.</p>	<p><b>4.</b> <input type="checkbox"/> Jewelry dealers in precious metals, who, as a business, trade in precious metals</p>		
<p><b>2.</b></p> <p><input type="checkbox"/> a. Insurance Companies</p> <p><input type="checkbox"/> b. Insurance Agents</p> <p><input type="checkbox"/> c. Insurance Brokers</p> <p><input type="checkbox"/> d. Professional Reinsurers</p> <p><input type="checkbox"/> e. Reinsurance Brokers</p> <p><input type="checkbox"/> f. Holding Companies</p> <p><input type="checkbox"/> g. Holding Company Systems</p> <p><input type="checkbox"/> h. Pre-need Companies</p> <p><input type="checkbox"/> i. Mutual Benefit Association</p> <p><input type="checkbox"/> j. All Other Persons and entities supervised and/or regulated by the Insurance Commission (IC)</p>	<p><b>5.</b> <input type="checkbox"/> Jewelry dealers in precious stones, who, as a business, trade in precious stone</p>		
<p><b>3.</b></p> <p><input type="checkbox"/> a. Securities Dealers</p> <p><input type="checkbox"/> b. Securities Brokers</p> <p><input type="checkbox"/> c. Securities Salesman</p> <p><input type="checkbox"/> d. Investment Houses</p> <p><input type="checkbox"/> e. Investment Agents and Consultants</p> <p><input type="checkbox"/> f. Trading Advisors</p> <p><input type="checkbox"/> g. Other entities managing Securities or rendering similar services</p> <p><input type="checkbox"/> h. Mutual Funds or Open-end Investment Companies</p> <p><input type="checkbox"/> i. Close-end Investment Companies</p> <p><input type="checkbox"/> j. Common Trust Funds or Issuers and other similar entities</p> <p><input type="checkbox"/> k. Transfer Companies and other similar entities</p> <p><input type="checkbox"/> l. Other entities administering or otherwise dealing in currency, commodities or financial derivatives based there on</p> <p><input type="checkbox"/> m. Entities administering or otherwise dealing in valuable objects</p> <p><input type="checkbox"/> n. Entities administering or otherwise dealing in cash Substitutes and other similar monetary instruments or property supervised and/or regulated by the Securities and Exchange Commission (SEC)</p>	<p><b>6.</b> Company service providers which, as a business, provide any of the following services to third parties:</p> <p><input type="checkbox"/> a. acting as a formation agent of juridical persons</p> <p><input type="checkbox"/> b. acting as (or arranging for another person to act as) a director or corporate secretary of a company, a partner of a partnership, or a similar position in relation to other juridical persons</p> <p><input type="checkbox"/> c. providing a registered office, business address or accommodation, correspondence or administrative address for a company, a partnership or any other legal person or arrangement</p> <p><input type="checkbox"/> d. acting as (or arranging for another person to act as) a nominee shareholder for another person</p>		
	<p><b>7.</b> Persons who provide any of the following services:</p> <p><input type="checkbox"/> a. managing of client money, securities or other assets</p> <p><input type="checkbox"/> b. management of bank, savings or securities accounts</p> <p><input type="checkbox"/> c. organization of contributions for the creation, operation or management of companies</p> <p><input type="checkbox"/> d. creation, operation or management of juridical persons or arrangements, and buying and selling business entities</p>		
	<p><b>8.</b> <input type="checkbox"/> None of the above</p>		
	<table border="1" style="width:100%; border-collapse: collapse;"> <tr> <td style="width:20%;"><b>Describe nature of business:</b></td> <td>To engage in the business of trading of goods such as consumer goods on wholesale / retail basis</td> </tr> </table>	<b>Describe nature of business:</b>	To engage in the business of trading of goods such as consumer goods on wholesale / retail basis
<b>Describe nature of business:</b>	To engage in the business of trading of goods such as consumer goods on wholesale / retail basis		
<p><b>B. Has the Corporation complied with the requirements on Customer Due Diligence (CDD) or Know Your Customer (KYC), record-keeping, and submission of reports under the AMLA, as amended, since the last filing of its GIS?</b>    <input type="radio"/> Yes    <input checked="" type="radio"/> No</p>			

**GENERAL INFORMATION SHEET  
STOCK CORPORATION**

===== PLEASE PRINT LEGIBLY =====

**CORPORATE NAME:** **MONTOSCO, INC.**

**CAPITAL STRUCTURE**

**AUTHORIZED CAPITAL STOCK**

	TYPE OF SHARES *	NUMBER OF SHARES	PAR/STATED VALUE	AMOUNT (PhP) (No. of shares X Par/Stated Value)
	COMMON	7,500,000	100.00	750,000,000.00
<b>TOTAL</b>		<b>7,500,000</b>	<b>TOTAL P</b>	<b>750,000,000.00</b>

**SUBSCRIBED CAPITAL**

FILIPINO	NO. OF STOCK-HOLDERS	TYPE OF SHARES *	NUMBER OF SHARES	NUMBER OF SHARES IN THE HANDS OF THE PUBLIC **	PAR/STATED VALUE	AMOUNT (PhP)	% OF OWNERSHIP
	7	COMMON	7,500,000		100.00	750,000,000.00	100.00%
		COMMON					
<b>TOTAL</b>			<b>7,500,000</b>	<b>TOTAL</b>	<b>TOTAL P</b>	<b>750,000,000.00</b>	<b>100.00%</b>

FOREIGN (INDICATE BY NATIONALITY)	NO. OF STOCK-HOLDERS	TYPE OF SHARES *	NUMBER OF SHARES	NUMBER OF SHARES IN THE HANDS OF THE PUBLIC **	PAR/STATED VALUE	AMOUNT (PhP)	% OF OWNERSHIP
N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b>Percentage of Foreign Equity :</b>		<b>TOTAL</b>	<b>0</b>	<b>TOTAL</b>	<b>TOTAL P</b>	<b>0.00</b>	<b>0.00%</b>
				<b>TOTAL SUBSCRIBED P</b>		<b>750,000,000.00</b>	<b>100.00%</b>

**PAID-UP CAPITAL**

FILIPINO	NO. OF STOCK-HOLDERS	TYPE OF SHARES *	NUMBER OF SHARES	PAR/STATED VALUE	AMOUNT (PhP)	% OF OWNERSHIP
	7	COMMON	7,500,000	100.00	750,000,000.00	100.00%
<b>TOTAL</b>			<b>7,500,000</b>	<b>TOTAL P</b>	<b>750,000,000.00</b>	<b>100.00%</b>
FOREIGN (INDICATE BY NATIONALITY)	NO. OF STOCK-HOLDERS	TYPE OF SHARES *	NUMBER OF SHARES	PAR/STATED VALUE	AMOUNT (PhP)	% OF OWNERSHIP
N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b>TOTAL</b>		<b>0</b>	<b>TOTAL P</b>	<b>0.00</b>	<b>0.00%</b>	<b>0.00%</b>
				<b>TOTAL PAID-UP P</b>	<b>750,000,000.00</b>	<b>100.00%</b>

**NOTE: USE ADDITIONAL SHEET IF NECESSARY**

\* Common, Preferred or other classification

\*\* Other than Directors, Officers, Shareholders owning 10% of outstanding shares.

### GENERAL INFORMATION SHEET

STOCK CORPORATION

PLEASE PRINT LEGIBLY

<b>CORPORATE NAME:</b> MONTOSCO, INC.								
DIRECTORS / OFFICERS								
NAME/CURRENT RESIDENTIAL ADDRESS	NATIONALITY	INC'R	BOARD	GENDER	STOCK HOLDER	OFFICER	EXEC. COMM.	TAX IDENTIFICATION NUMBER
1. JANNELLE O. UY [Redacted]	Filipino	N	C	F	Y	Chairman and President	N/A	[Redacted]
2. LUCIO L. CO [Redacted]	Filipino	N	M	M	Y	Director	N/A	[Redacted]
3. SUSAN P. CO [Redacted]	Filipino	N	M	F	Y	Director	N/A	[Redacted]
4. PAMELA JUSTINE P. CO [Redacted]	Filipino	N	M	F	Y	Director	N/A	[Redacted]
5. CAMILLE CLARISSE P. CO [Redacted]	Filipino	N	M	M	Y	Director	N/A	[Redacted]
6. MARICEL B. JOYAG [Redacted]	Filipino	N	N	F	N	Vice-President	N/A	[Redacted]
7. EVELYN B. BINANITAN [Redacted]	Filipino	N	N	F	N	Corporate Secretary	N/A	[Redacted]
8. MARIA CRISANTA A. RELOS [Redacted]	Filipino	N	N	F	N	Treasurer	N/A	[Redacted]

**INSTRUCTION:**

- FOR SEX COLUMN, PUT "F" FOR FEMALE, "M" FOR MALE.
- FOR BOARD COLUMN, PUT "C" FOR CHAIRMAN, "M" FOR MEMBER, "I" FOR INDEPENDENT DIRECTOR.
- FOR INC'R COLUMN, PUT "Y" IF AN INCORPORATOR, "N" IF NOT.
- FOR STOCKHOLDER COLUMN, PUT "Y" IF A STOCKHOLDER, "N" IF NOT.
- FOR OFFICER COLUMN, INDICATE PARTICULAR POSITION IF AN OFFICER, FROM VP UP INCLUDING THE POSITION OF THE TREASURER, SECRETARY, COMPLIANCE OFFICER AND/OR ASSOCIATED PERSON.
- FOR EXECUTIVE COMMITTEE, INDICATE "C" IF MEMBER OF THE COMPENSATION COMMITTEE; "A" FOR AUDIT COMMITTEE; "N" FOR NOMINATION AND ELECTION COMMITTEE. ADDITIONALLY WRITE "C" AFTER SLASH IF CHAIRMAN AND "M" IF MEMBER.

[REDACTED]						[REDACTED]
[REDACTED]						[REDACTED]
[REDACTED]			1			[REDACTED]
[REDACTED]			1			[REDACTED]
[REDACTED]			1			[REDACTED]
[REDACTED]			1			[REDACTED]
[REDACTED]			1			[REDACTED]
[REDACTED]			1		100.00	[REDACTED]
[REDACTED]			1			[REDACTED]
[REDACTED]			1			[REDACTED]
[REDACTED]			1	0.00%	100.00	[REDACTED]

--



**GENERAL INFORMATION SHEET**  
**STOCK CORPORATION**

PLEASE PRINT LEGIBLY			
<b>CORPORATE NAME:</b> MONTOSCO, INC.			
<b>1. INVESTMENT OF CORPORATE FUNDS IN ANOTHER CORPORATION</b>	<b>AMOUNT (PhP)</b>	<b>DATE OF BOARD RESOLUTION</b>	
1.1 STOCKS	N/A	N/A	
1.2 BONDS/COMMERCIAL PAPER (Issued by Private Corporations)	N/A	N/A	
1.3 LOANS/ CREDITS/ ADVANCES	N/A	N/A	
1.4 GOVERNMENT TREASURY BILLS	N/A	N/A	
1.5 OTHERS	N/A	N/A	
<b>2. INVESTMENT OF CORPORATE FUNDS IN ACTIVITIES UNDER ITS SECONDARY PURPOSES (PLEASE SPECIFY:)</b>	<b>DATE OF BOARD RESOLUTION</b>	<b>DATE OF STOCKHOLDERS RATIFICATION</b>	
N/A	N/A	N/A	
<b>3. TREASURY SHARES</b>	<b>NO. OF SHARES</b>	<b>% AS TO THE TOTAL NO. OF SHARES ISSUED</b>	
	N/A		
<b>4. UNRESTRICTED/UNAPPROPRIATED RETAINED EARNINGS AS OF END OF LAST FISCAL YEAR : 1,702,740,656.00</b>			
<b>5. DIVIDENDS DECLARED DURING THE IMMEDIATELY PRECEDING YEAR:</b>			
<b>TYPE OF DIVIDEND</b>	<b>AMOUNT (PhP)</b>	<b>DATE DECLARED</b>	
5.1 CASH	50,000,000.00	December 5, 2019	
5.2 STOCK	N/A	N/A	
5.3 PROPERTY	N/A	N/A	
<b>TOTAL</b>	<b>P</b>		
<b>6. ADDITIONAL SHARES ISSUED DURING THE PERIOD:</b>			
<b>DATE</b>	<b>NO. OF SHARES</b>	<b>AMOUNT</b>	
N/A	N/A	N/A	
<b>SECONDARY LICENSE/REGISTRATION WITH SEC AND OTHER GOV'T AGENCY:</b>			
<b>NAME OF AGENCY:</b>	SEC	B S P	I C
<b>TYPE OF LICENSE/REGN.</b>	N/A	N/A	N/A
<b>DATE ISSUED:</b>	N/A	N/A	N/A
<b>DATE STARTED OPERATIONS:</b>	N/A	N/A	N/A
<b>TOTAL ANNUAL COMPENSATION OF DIRECTORS DURING THE PRECEDING FISCAL YEAR (in PhP)</b>	<b>TOTAL NO. OF OFFICERS</b>	<b>TOTAL NO. OF RANK &amp; FILE EMPLOYEES</b>	<b>TOTAL MANPOWER COMPLEMENT</b>
1,878,596.00	20	55	75

NOTE: USE ADDITIONAL SHEET IF NECESSARY

I, EVELYN B. BINANITAN Corporate Secretary of MONTOSCO, INC. declare under penalty of perjury that all matters set forth in this GIS have been made in good faith, duly verified by me and to the best of my knowledge and belief are true and correct.

I hereby attest that all the information in this GIS are being submitted in compliance with the rules and regulations of the Securities and Exchange Commission (SEC) the collection, processing, storage and sharing of said information being necessary to carry out the functions of public authority for the performance of the constitutionally and statutorily mandated functions of the SEC as a regulatory agency.

I further attest that I have been authorized by the Board of Directors/Trustees to file this GIS with the SEC.

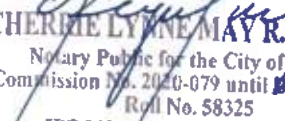
I understand that the Commission may place the corporation under delinquent status for failure to submit the reportorial requirements three (3) times, consecutively or intermittently, within a period of five (5) years (Section 177, RA No. 11232).

Done this SEP 07 day of 2020 2020 in the City of Manila.

  
EVELYN B. BINANITAN  
Corporate Secretary

**SUBSCRIBED AND SWORN TO** before me in the City of Manila on SEP 07 2020 by affiant who personally appeared before me and exhibited to me her Tax Identification Card with no. ██████████ issued by the Bureau of Internal Revenue.

Doc. No. 68  
Page No. 14  
Book No. 24  
Series of 2020.

  
CHERIE LYNNE MAY R. PUREZA  
Notary Public for the City of Manila  
Commission No. 2020-079 until Dec. 31, 2021  
Roll No. 58325  
IBP Lifetime Member No. 09093  
PTR No. 9120218/01-02-2020/Mia.  
MCLE Compliance No. VI-0022488/04-16-19  
No. 900 Romualdez St., Paco, Manila



**MONTOSCO INC.**

"ANNEX B-3"

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR FINANCIAL STATEMENTS**

The management of **MONTOSCO, INC.** (the "**Company**") is responsible for the preparation and fair presentation of the separate financial statements, including the schedule attached therein, as at and for the years ended **December 31, 2019 and 2018**, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of the separate financial statements that are free from material misstatement, whether due to fraud or error.


In preparing the separate 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.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the separate financial statements including the schedule attached therein, and submits the same to the stockholders.

**R.G. Manabat & Co.**, the independent auditor appointed by the stockholders, has audited the separate financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

  
**JANNELLE O. UY**  
President and Chairman of the Board

  
**MARIA CRISANTA A. RELOS**  
Treasurer

Signed this 9<sup>th</sup> day of June 2020

# COVER SHEET

## For AUDITED FINANCIAL STATEMENTS

SEC Registration Number

C S 2 0 0 8 1 2 5 2 8

### COMPANY NAME

M O N T O S C O , I N C .  
( A W h o l l y - o w n e d S u b s i d i a r y o f  
C o s c o C a p i t a l , I n c . )

### PRINCIPAL OFFICE ( No. / Street / Barangay / City / Town / Province)

1 5 0 1 F e d e r a l T o w e r D a s m a r i ñ a s  
S t r e e t , B i n o n d o , M a n i l a

Form Type

A A F S

Department requiring the report

Secondary License Type, If Applicable

### COMPANY INFORMATION

Company's email Address

www.coscocapital.com

Company's Telephone Number/s

(02) 242-0635

Mobile Number

No. of Stockholders

7

Annual Meeting (Month / Day)

June 30

Fiscal Year (Month / Day)

December 31

### CONTACT PERSON INFORMATION

The designated contact person **MUST** be an Officer of the Corporation

Name of Contact Person

Camille Clarisse P. Co

Email Address

Telephone Number/s

(02) 242-0635

Mobile Number

### CONTACT PERSON'S ADDRESS

1501 Federal Tower, Dasmariñas Street, Binondo, Manila

*Note 1: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.*

*2: All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.*



# **MONTOSCO, INC.**

(A Wholly-owned Subsidiary of Cosco Capital, Inc.)

**FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

With Independent Auditors' Report



R.G. Manabat & Co.  
The KPMG Center, 9/F  
6787 Ayala Avenue, Makati City  
Philippines 1226  
Telephone +63 (2) 8885 7000  
Fax +63 (2) 8894 1985  
Website home.kpmg/ph  
Email ph-inquiry@kpmg.com

## REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders  
**Montosco, Inc.**  
1501 Federal Tower, Dasmarinas Street  
Binondo, Manila

### Report on the Audit of the Financial Statements

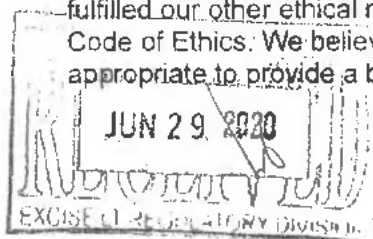
#### *Opinion*

We have audited the financial statements of Montosco, Inc. (the "Company"), a wholly-owned subsidiary of Cosco Capital, Inc., which comprise the statements of financial position as at December 31, 2019 and 2018, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended 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 *Auditors' 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 the 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.





### *Responsibilities of Management and the Board of Directors for the Financial Statements*

Management is responsible for the preparation and fair presentation of the 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 its operations, or has no realistic alternative but to do so.

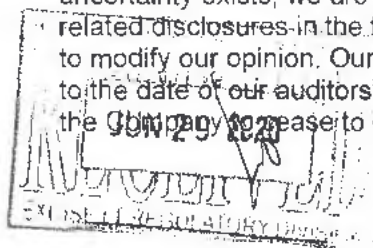
The Board of Directors is responsible for overseeing the Company's financial reporting process.

### *Auditors' Responsibilities for the Audit of the 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 auditors' 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, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSA, we exercise professional judgment and maintain professional skepticism throughout the audits. 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 auditors' 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 auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.





- 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 the Board of Directors and management 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.

**Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010 of the Bureau of Internal Revenue**

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 24 to financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

**R.G. MANABAT & CO.**

*Gregorio I. Sambrano Jr.*  
GREGORIO I. SAMBRANO, JR.  
Partner

CPA License No. 088825

SEC Accreditation No. 1548-AR-1, Group A, valid until December 17, 2021

Tax Identification No. 152-885-329

BIR Accreditation No. 08-001987-36-2018

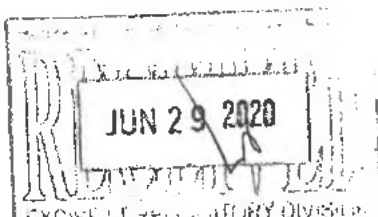
Issued September 20, 2018; valid until September 19, 2021

PTR No. MKT 8116783

Issued January 2, 2020 at Makati City

June 25, 2020

Makati City, Metro Manila





R.G. Manabat & Co.  
The KPMG Center, 9/F  
6787 Ayala Avenue, Makati City  
Philippines 1226  
Telephone +63 (2) 8885 7000  
Fax +63 (2) 8894 1985  
Website home.kpmg/ph  
Email ph-inquiry@kpmg.com

**REPORT OF INDEPENDENT AUDITORS  
TO ACCOMPANY FINANCIAL STATEMENTS FOR FILING  
WITH THE SECURITIES AND EXCHANGE COMMISSION**

The Board of Directors and Stockholders  
**Montosco, Inc.**  
1501 Federal Tower, Dasmarinas Street  
Binondo, Manila

We have audited the accompanying financial statements of Montosco, Inc. (the "Company"), a wholly-owned subsidiary of Cosco Capital, Inc., as at and for the year ended December 31, 2019, on which we have rendered our report dated June 25, 2020.

In compliance with Revised Securities Regulation Code Rule 68, we are stating that the said Company has only one (1) stockholder owning one hundred (100) or more shares.

**R.G. MANABAT & CO.**

*Gregorio I. Sambrano, Jr.*  
GREGORIO I. SAMBRANO, JR.  
Partner

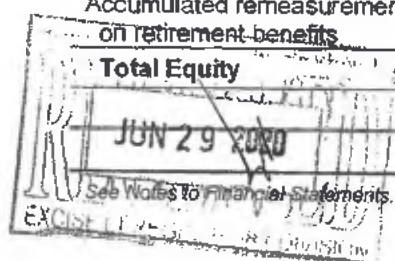
CPA License No. 088825  
SEC Accreditation No. 1548-AR-1, Group A, valid until December 17, 2021  
Tax Identification No. 152-885-329  
BIR Accreditation No. 08-001987-36-2018  
Issued September 20, 2018; valid until September 19, 2021  
PTR No. MKT 8116783  
Issued January 2, 2020 at Makati City

June 25, 2020  
Makati City, Metro Manila

**MONTOSCO, INC.**  
**(A Wholly-owned Subsidiary of Cosco Capital, Inc.)**  
**STATEMENTS OF FINANCIAL POSITION**



		December 31, 2018	January 1, 2018
	December 31, 2019	(As restated - see Note 22)	(As restated - see Note 22)
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash	5, 19	P167,845,035	P263,925,726
Trade and other receivables	6, 19	1,444,904,280	1,053,351,711
Inventories	7, 15	3,427,765,849	1,262,556,953
Prepaid expenses and other current assets	8	445,282,867	427,302,948
<b>Total Current Assets</b>		<b>5,485,798,031</b>	<b>3,007,137,338</b>
<b>Noncurrent Assets</b>			
Right-of-use assets - net	16	26,735,588	1,066,473
Property and equipment - net	9	9,412,433	5,096,872
Refundable deposits	10, 19	4,127,879	2,037,453
<b>Total Noncurrent Assets</b>		<b>40,275,900</b>	<b>8,200,798</b>
		<b>P5,526,073,931</b>	<b>P4,245,555,806</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Trade and other payables	11, 19	P1,124,965,435	P183,682,620
Notes payable	12, 19	120,000,000	700,000,000
Income tax payable		139,332,117	60,764,797
Lease liabilities - current	16, 19	14,431,292	745,356
Dividends payable	13, 14, 19	50,000,000	100,000,000
Advances from a stockholder	13, 19	-	659,500,000
Advances from Parent Company		-	234,000,000
<b>Total Current Liabilities</b>		<b>1,448,728,844</b>	<b>1,890,194,272</b>
<b>Noncurrent Liabilities</b>			
Advances from a stockholder	13, 19	659,500,000	-
Lease liabilities - net of current portion	16, 19	13,128,665	395,719
Retirement benefits liability	17	2,340,592	1,550,561
<b>Total Noncurrent Liabilities</b>		<b>674,969,257</b>	<b>1,946,280</b>
<b>Total Liabilities</b>		<b>2,123,698,101</b>	<b>1,901,942,092</b>
<b>Equity</b>			
Capital stock	14	750,000,000	750,000,000
Retained earnings			
Unappropriated	14	1,702,740,656	643,053,859
Appropriated	14	950,000,000	950,000,000
Accumulated remeasurements on retirement benefits	17	(364,826)	559,855
<b>Total Equity</b>		<b>3,402,375,830</b>	<b>1,734,199,083</b>
		<b>P5,526,073,931</b>	<b>P4,245,555,806</b>

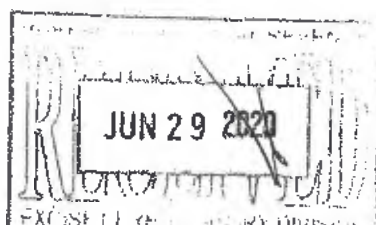


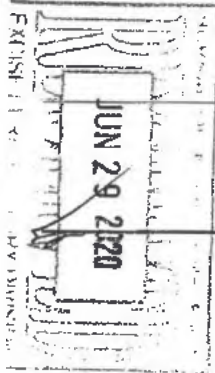


**MONTOSCO, INC.**  
**(A Wholly-owned Subsidiary of Cosco Capital, Inc.)**  
**STATEMENTS OF COMPREHENSIVE INCOME**

		Years Ended December 31	
	Note	2019	2018 (As restated - see Note 22)
<b>NET SALES</b>	13	<b>P8,155,525,111</b>	<b>P5,291,847,624</b>
<b>COST OF GOODS SOLD</b>	15	<b>6,130,312,840</b>	<b>4,019,765,423</b>
<b>GROSS PROFIT</b>		<b>2,025,212,471</b>	<b>1,272,082,201</b>
<b>OPERATING EXPENSES</b>			
Advertisement		219,525,677	190,123,388
Distribution costs		150,239,260	76,069,173
Outside services		50,539,982	44,034,167
Taxes and licenses		44,623,004	10,699,402
Salaries and other employee benefits	17	25,131,216	21,587,006
Depreciation and amortization	9, 16	16,351,559	13,598,013
Utilities and communication		7,930,241	7,059,934
Insurance		5,647,927	6,163,715
Transportation and travel		6,481,385	6,110,201
Representation and entertainment		2,107,411	1,514,791
Miscellaneous		16,925,324	14,575,670
		<b>545,502,986</b>	<b>391,535,460</b>
<b>INCOME FROM OPERATIONS</b>		<b>1,479,709,485</b>	<b>880,546,741</b>
<b>OTHER INCOME - Net</b>			
Interest expense	12, 13, 16	(34,723,895)	(14,705,331)
Foreign exchange gains - net		31,816,959	32,586,368
Interest income	5	3,195,077	2,397,647
Commission income		-	53,674,117
		<b>288,141</b>	<b>73,952,801</b>
<b>INCOME BEFORE INCOME TAX</b>		<b>1,479,997,626</b>	<b>954,499,542</b>
<b>PROVISION FOR INCOME TAX</b>	18	<b>370,310,829</b>	<b>245,685,899</b>
<b>NET INCOME</b>		<b>1,109,686,797</b>	<b>708,813,643</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
Item that will not be reclassified to profit or loss in subsequent periods			
Remeasurement gain (loss) on retirement benefits	17	(924,681)	600,988
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>P1,108,762,116</b>	<b>P709,414,631</b>

See Notes to Financial Statements.





**MONTOSCO, INC.**  
**(A Wholly-owned Subsidiary of Cosco Capital, Inc.)**  
**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	Note	Capital Stock (Note 14)	Retained Earnings		Accumulated Remeasurements on Retirement Benefits (Note 17)	Total
			Unappropriated (Note 14)	Appropriated (Note 14)		
Balances at January 1, 2018, as previously reported		P750,000,000	P984,279,425	P -	(P41,133)	P1,734,238,292
Restatements	22	-	(39,209)	-	-	(39,209)
Balances at January 1, 2018, as restated		750,000,000	984,240,216	-	(41,133)	1,734,199,083
Net income for the year, as previously reported		-	709,250,568	-	-	709,250,568
Restatements	22	-	(436,925)	-	-	(436,925)
Net income for the year, as restated		-	708,813,643	-	-	708,813,643
Other comprehensive income for the year		-	-	-	600,988	600,988
Total comprehensive income for the year, as restated		-	708,813,643	-	600,988	709,414,631
Cash dividend declaration		-	(100,000,000)	-	-	(100,000,000)
Appropriation during the year		-	(950,000,000)	950,000,000	-	-
Balances at December 31, 2018, as restated		750,000,000	643,053,859	950,000,000	559,855	2,343,613,714
Net income for the year		-	1,109,686,797	-	-	1,109,686,797
Other comprehensive loss for the year		-	-	-	(924,681)	(924,681)
Total comprehensive income (loss) for the year		-	1,109,686,797	-	(924,681)	1,108,762,116
Cash dividend declaration		-	(50,000,000)	-	-	(50,000,000)
<b>Balances at December 31, 2019</b>		<b>P750,000,000</b>	<b>P1,702,740,656</b>	<b>P950,000,000</b>	<b>(P364,826)</b>	<b>P3,402,375,830</b>

See Notes to Financial Statements.



**MONTOSCO, INC.**  
**(A Wholly-owned Subsidiary of Cosco Capital, Inc.)**  
**STATEMENTS OF CASH FLOWS**

		Years Ended December 31	
	Note	2019	2018 (As restated - see Note 22)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax		P1,479,997,626	P954,499,542
Adjustments for:			
Interest expense	12, 13, 16	34,723,895	14,705,331
Depreciation and amortization	9, 16	16,351,559	13,598,013
Interest income	5	(3,195,077)	(2,397,647)
Retirement benefits costs	17	303,004	283,334
Unrealized foreign exchange loss - net		252,952	6,578,977
Operating income before working capital changes		1,528,433,959	987,267,550
Decrease (Increase) in:			
Trade and other receivables		(596,189,873)	203,575,979
inventories		(885,808,759)	(1,279,400,137)
Prepaid expenses and other current assets		295,015,740	(312,995,659)
Increase in trade and other payables		546,585,766	389,906,226
Cash generated from (used in) operations		888,036,833	(11,646,041)
Income taxes paid		(315,843,151)	(221,586,257)
Interest received	5	3,195,077	2,397,647
Retirement benefits paid	17	-	(120,000)
Net cash from (used in) operating activities		575,388,759	(230,954,651)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions to property and equipment	9	(3,436,241)	(6,804,362)
Additions to refundable deposits		(1,981,996)	(108,430)
Cash used in investing activities		(5,418,237)	(6,912,792)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Payments of:			
Notes payable	12	(353,000,000)	(700,000,000)
Dividends	14	(200,000,000)	-
Interest on advances from a stockholder	13	(30,798,416)	-
Lease liabilities	16	(14,159,698)	(11,690,080)
Interest on notes payable	12	(6,745,000)	(10,251,527)
Advances from Parent Company	13	-	(234,000,000)
Proceeds from availment of:			
Notes payable	12	120,000,000	353,000,000
Advances from a stockholder	13	-	659,500,000
Net cash from (used in) financing activities		(484,703,114)	56,558,393
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>			
		(23,874)	(15,175)
<b>NET INCREASE (DECREASE) IN CASH</b>		<b>85,243,534</b>	<b>(181,324,225)</b>
<b>CASH AT BEGINNING OF YEAR</b>		<b>82,601,501</b>	<b>263,925,726</b>
<b>CASH AT END OF YEAR</b>	<b>5</b>	<b>P167,845,035</b>	<b>P82,601,501</b>

See Notes to Financial Statements  
**JUN 29 2020**  
 MONTOSCO, INC.  
 Financial Statements

**MONTOSCO, INC.**  
**(A Wholly-owned Subsidiary of Cosco Capital, Inc.)**

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**NOTES TO FINANCIAL STATEMENTS**

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**1. Reporting Entity**

Montosco, Inc. (the "Company") was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on August 13, 2008. The principal activity of the Company is to engage in the business of trading consumer goods on wholesale basis.

The Company is a wholly-owned subsidiary of Cosco Capital, Inc. (the "Parent Company"), a company incorporated in the Philippines. Cosco's shares of stock are listed for trading at the Philippine Stock Exchange (PSE).

The Company's registered office address is at the 1501 Federal Tower, Dasmariñas Street, Binondo, Manila.

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**2. Basis of Preparation**

Statement of Compliance

The financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). PFRS which are issued by the Philippine Financial Reporting Standards Council (FRSC), consist of PFRS, Philippine Accounting Standards (PAS), and Philippine Interpretations based on the International Financial Reporting Interpretations Committee (IFRIC) interpretations.

Basis of Measurement

The financial statements have been prepared on the historical cost basis of accounting except for the retirement benefits liability which is measured at the present value of the defined benefits obligation.

Functional and Presentation Currency

The financial statements are measured using the currency of the primary economic environment in which the Company operates. The financial statements are presented in Philippine peso, which is also the Company's functional currency. All amounts are rounded to the nearest peso, except when otherwise indicated.

Authorization for Issuance of the Financial Statements

The accompanying financial statements of the Company as at and for the years ended December 31, 2019 and 2018 were approved and authorized for issue by the Board of Directors (BOD) on June 9, 2020.

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### 3. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in these financial statements, except for the changes in accounting policies as explained below.

#### Adoption of New or Revised Standards, Amendments to Standards and Interpretations

The Company has adopted the following new standard starting January 1, 2019 and accordingly, changed its accounting policies.

- PFRS 16, *Leases* supersedes PAS 17, *Leases* and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance, and new disclosure requirements.

Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification, and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were introduced.

The Company applied PFRS 16 using the retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings as at January 1, 2018. Accordingly, the comparative information presented, as at and for the year ended December 31, 2018, is restated.

The Company used the following practical expedients when applying PFRS 16 to leases previously classified as operating leases under PAS 17:

- Applied a single discount rate to a portfolio of leases with similar characteristics;
- Applied the exemption not to recognize right-of-use assets and lease liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- Excluded initial direct costs from measuring the right of-use asset at the date of initial application; and
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

#### *Impact on Financial Statements*

In transition to PFRS 16 on January 1, 2019 using the retrospective approach, the Company recognized right-of-use assets and lease liabilities on the commencement date of the lease agreement. Consequently, the cumulative effect of the transition was recognized on January 1, 2018. The impact on transition as at January 1, 2018 is presented in notes for prior period restatement (see Note 22).

As at January 1, 2018, the Company recognized ROU assets and lease liabilities amounting to P1,066,473 and P1,141,075, respectively. As at December 31, 2019 and 2018, the carrying amounts of the ROU assets and lease liabilities are as follows:

	Note	2019	2018
ROU Assets	16	P26,735,588	P20,667,907
Lease liabilities	16	27,559,957	21,179,433

When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate as of date of lease commencement date. The weighted average rate applied is 4.74%.

The Company has also adopted the following amendments to standards and interpretations which did not have any significant impact on the Company's financial statements.

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*
- PFRS 9, *Financial Instruments - Prepayment Features with Negative Compensation (Amendments)*
- PAS 19, *Employee Benefits - Plan Amendment, Curtailment or Settlement (Amendments)*
- Annual Improvements to PFRS Standards 2015-2017 Cycle - various standards

#### Financial Instruments

##### *Date of Recognition*

The Company recognizes a financial asset or a financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases and sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

##### *Initial Recognition of Financial Instruments*

Financial instruments are recognized initially at fair value. The initial measurement of financial instruments, except for those financial assets and financial liabilities classified or designated at fair value through profit or loss (FVTPL), includes transaction costs.

##### *Classification and Measurement of Financial Instruments*

On initial recognition, the Company classifies its financial assets in the following categories: measured at amortized cost, financial assets at FVTPL and financial assets at fair value through other comprehensive income (FVOCI). The classification depends on the business model for managing the financial assets and the contractual terms of its cash flows.

The Company classifies its financial liabilities as either financial liabilities at amortized cost or financial liabilities at FVTPL. The Company classifies all financial liabilities at amortized cost, except for:

- (a) financial liabilities designated by the Company at initial recognition as at FVTPL, when doing so results in more relevant information.
- (b) financial liabilities that arise when the transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.
- (c) contingent consideration recognized by the Company in a business combination which shall subsequently be measured at fair value with changes recognized in profit or loss.

- (d) financial guarantee contracts and commitments to provide a loan at a below market interest rate which are initially measured at fair value and subsequently at higher of amortized amount and amount of loss allowance.

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

*Business Model Assessment*

The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated - e.g., whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

*Solely Payments of Principal and Interest Assessment*

Principal is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers contingent events that would change the amount or timing of cash flows, terms that may adjust the contractual coupon rate, including variable-rate features, prepayment and extension features, and terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse features).

The Company has no financial assets classified as financial assets at FVTPL and FVOCI as at December 31, 2019.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.



#### *Financial Assets at Amortized Cost*

A financial asset is measured at amortized cost if it is held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

Included in this category are the Company's cash in banks, trade and other receivables and refundable deposits.

#### *Financial Liabilities at Amortized Cost*

This category pertains to financial liabilities that are not held for trading or designated as at FVTPL upon inception of the liability. These include liabilities arising from operations or borrowings. The financial liabilities are recognized initially at fair value and subsequently carried at amortized cost, taking into account the impact of applying the effective interest rate method of amortization for any related premium, discount and any directly attributable transaction costs. These financial liabilities are included in current liabilities if maturity is within twelve months from reporting date. Otherwise, these are classified as noncurrent liabilities.

This category includes the Company's trade and other payables (excluding statutory obligations), notes payable, dividends payable, advances from a stockholder and lease liabilities as at December 31, 2019 and 2018.

#### Impairment of Financial Assets

The Company measures loss allowances at an amount equal to lifetime ECLs, except for debt securities that are determined to have low credit risk at the reporting date and other debt securities and bank balances for which credit risk has not increased significantly since initial recognition, which are measured at 12-month ECLs.

Loss allowances for trade and other receivables is always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due. The Company considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security (if any is held) or the financial asset is more than 90 days past due on any material credit obligation to the Company.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. The 12-month ECLs are a portion of lifetime ECLs that represents the ECLs resulting from default events on the financial instrument that are possible within 12 months after the reporting date or a shorter period if the expected life of the instrument is less than 12 months.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

ECLs are probability weighted-estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Company assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the significant financial difficulty of the borrower or issuer, a breach of contract such as default, the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise, when it is probable that the borrower will enter bankruptcy or other financial reorganization, or the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

Financial assets are written off when there is no reasonable expectation of recovery. The Company categorizes financial assets recorded at amortized cost for write off when a debtor fails to make payments or when it is probable that the receivable will not be collected. Where amortized cost financial assets have been written off, the Company continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognized in profit or loss.

#### Derecognition of Financial Assets and Financial Liabilities

##### *Financial Assets*

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

- the rights to receive cash flows from the asset have expired;
- 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 rewards of the asset; or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards 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 is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

### *Financial Liabilities*

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. The difference in the respective carrying amounts is recognized in profit or loss.

### Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is 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. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

### Fair Value Measurement

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 measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to the Company.

The fair value of an asset or a liability is measured using the assumptions that the market participants would use when pricing the asset or liability, assuming that the market participants act in their economic best interest.

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 markets 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 reassessing 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.



As at December 31, 2019 and 2018, no financial asset or financial liability was recognized at fair value. The Company has no other assets or liabilities with recurring and non-recurring fair value measurements.

#### Inventories

Inventories, which consist of spirits, wines and water, are valued at the lower of cost and net realizable value (NRV). Cost is comprised of purchase price, expenditure incurred in acquiring the inventories and other costs incurred in bringing them to their present location and condition. Cost is determined using the first-in, first-out method.

NRV represents the estimated selling price less costs to be incurred in marketing, selling and distribution. In determining the NRV, the Company considers any adjustment necessary to write-down inventories to NRV for slow-moving and near expiry products based on physical inspection and management evaluation.

#### Prepaid Expenses and Other Current Assets

##### *Prepaid Expenses and Advances*

Prepaid expenses and advances represent expenses not yet incurred but already paid in cash. Prepaid expenses and advances are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are charged to profit or loss as these are consumed in operations or expire with the passage of time.

Prepaid expenses and advances are classified in the statement of financial position as current asset when the cost of goods or services related to the prepayment are expected to be incurred within one (1) year from the reporting date. Otherwise, prepayments are classified as noncurrent assets.

##### *Value-added Tax (VAT)*

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

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of tax included.

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of "Prepaid expenses and other current assets" account or "Trade and other payables" account in the statement of financial position.

#### Refundable Deposits

Refundable deposits are cash paid for the lease agreements covering the office spaces and warehouse which are expected to be refunded upon the termination of the lease. These are carried at net realizable value and classified as current for leases which will expire within 12 months from the reporting period otherwise, these will be classified as noncurrent.

### Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization and any impairment in value. The initial cost of items of property and equipment consists of its purchase price, including import duties and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to profit or loss in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of the item of property and equipment.

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

	Number of Years
Transportation and delivery equipment	5
Leasehold improvements	3 or lease term, whichever is shorter
Office equipment	2
Furniture and fixtures	2
Computer software license	2

Depreciation and amortization of an item of property and equipment begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation or amortization ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, and the date the asset is derecognized.

The estimated useful lives and depreciation and amortization method are reviewed periodically to ensure that the periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation is recognized in the profit or loss. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and any impairment in value are removed from the accounts and any resulting gain or loss is recognized in profit or loss.

### Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. The capitalization of borrowing costs: (i) commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred; (ii) is suspended during the extended periods in which active development, improvement and construction of the assets are interrupted; and (iii) ceases when substantially all the activities necessary to prepare the assets are completed. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds.

Other borrowing costs are recognized as expense in the period in which they are incurred.

#### Impairment of Noncurrent Nonfinancial Assets

The Company assesses at end of each reporting period whether there is indication that its noncurrent nonfinancial assets which include property and equipment may be impaired. If any such indication exists and where the carrying amount exceeds the estimated recoverable amount, the assets or the cash generating unit (CGU) are written down to their recoverable amounts. The recoverable amount of the nonfinancial assets is the greater of fair value less cost to sell and value-in-use. The fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's length transaction. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.

Impairment losses, if any, are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation and amortization charge are adjusted in future periods to allocate the asset's revised carrying amount on a systemic basis over its remaining useful life.

#### Capital Stock

Ordinary or Common shares are classified as equity. The proceeds from the issuance of ordinary or common shares are presented in equity as capital stock to the extent of the par value of the issued and outstanding shares and any excess of the proceeds over the par value of the shares issued, less any incremental costs directly attributable to the issuance, net of tax, is presented in equity as additional paid-in capital.

#### Retained Earnings

Retained earnings represent the cumulative balance of periodic net income or loss, dividend contributions, correction of prior year errors, effect of changes in accounting policy and other capital adjustments.

#### Dividends on Common Shares

Cash dividends on common shares are recognized as liability and deducted from equity when approved by the BOD of the Company. Stock dividend declared but not yet issued is presented as "Capital stock dividend distributable" in the statement of financial position. When the stock dividends are declared, the amount of stock dividends are treated as transfers from retained earnings to common shares.

Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date.

#### Revenue Recognition

Revenue from contracts with customers is recognized upon transfer of goods to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods.

The following specific recognition criteria must also be met before revenue is recognized:

##### *Sale of Goods*

Revenue is recognized at the point in time when control of the asset is transferred to the customer, generally upon delivery. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized. Revenue is recognized net of variable consideration such as discounts, rebates, listing and slotting fees/display allowances and certain payments to customers post the initial sale of goods.

##### *Commission Income*

Commission is recognized at a point in time when the related indirect sale of goods have been received and accepted by the buyer at their premises.

##### *Interest Income*

Interest income is recognized in profit or loss as it accrues, taking into account the effective yield on the asset.

#### Cost and Expense Recognition

##### *Cost of Goods Sold*

Cost of goods sold is recognized when goods are shipped to the buyer. Expenses are recognized upon utilization of services or at the date they are incurred.

##### *Operating Expenses*

Operating expenses are costs incurred to sell or distribute the goods and administering the business. It includes documentation processing and delivery, among others. Operating expenses are expensed as incurred.

#### Other Comprehensive Income

Other comprehensive income 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 year in accordance with PFRS.

#### Employee Benefits

##### *Short-term Employee Benefits*

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of the past service provided by the employee and the obligation can be estimated reliably.

##### *Retirement Benefits Liability and Costs*

The Company has an unfunded, noncontributory defined benefits retirement plan covering substantially all permanent, regular and full-time employees. The Company's obligation in respect of the defined benefits is calculated by estimating the amount of the future benefits that employees have earned in the current and prior period and discounting that amount.

The calculation of defined benefits obligations is performed on a periodic basis by a qualified actuary using the projected unit credit method.



Remeasurements of the retirement benefits liability, which comprise of actuarial gains and losses, are recognized immediately in other comprehensive income. The Company determines the interest expense on the retirement benefits liability for the period by applying the discount rate used to measure the retirement benefits liability at the beginning of the annual period to the then retirement benefits liability, taking into account any changes in the retirement benefits liability during the period as a result of benefit payments, if any. Interest expense and other expenses related to defined benefits plans are recognized in profit or loss.

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

#### Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and,
- the Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Company has the right to direct the use of the asset if either:
  - the Company has the right to operate the asset; or
  - the Company designed the asset in a way that predetermines how and for what purpose it will be used.

This policy is applied to contracts entered into, or changed, on or after January 1, 2019.

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

#### *Company as Lessee*

The Company recognizes a ROU asset and a lease liability at the lease commencement date. The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for accrued rent payable at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The ROU asset is subsequently amortized using the straight-line method from the commencement date to the end of the lease term unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the ROU asset reflects that the Company will exercise a purchase option. In that case, the ROU asset will be amortized over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the ROU asset is periodically reduced by impairment loss, if any, and adjusted for certain remeasurements of the lease liability. The ROU asset is presented as a separate line item in the statement of financial position.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following: (a) fixed payments, including in-substance payments; (b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date; (c) amounts expected to be payable under a residual value guarantee; and, (d) the exercise price under a purchase option the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise and extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate; if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee; or, if the Company changes its assessment of whether it will exercise a purchase, extension, or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the ROU asset, or is recorded in profit or loss if the carrying amount of the ROU asset has been reduced to zero.

The Company has presented interest expense on the lease liability separately from the amortization charge for the ROU asset. The interest expense on lease liability is presented under "Costs and expenses" in profit or loss.

#### Income Taxes

Provision for income tax is composed of current income tax and deferred income tax. Provision for income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income, in which case, it is recognized directly in equity or in other comprehensive income.

#### *Current Income Tax*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used as basis to compute the amount are those that have been enacted or substantively enacted at the reporting date.

#### *Deferred Income Tax*

Deferred income tax is provided, using the balance sheet liability method, 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 income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences can be utilized.

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

Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

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

#### Related Party Transactions and Relationships

Related party relationships exist when the party has the ability to control, directly or indirectly, through one or more intermediaries, or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting entity and its key management personnel, directors or stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely to the legal form. Related parties may be individual or corporate entities.

#### Foreign Currency Denominated Transactions and Translation

Transactions in foreign currencies are recorded using the functional currency exchange rate at the date of transaction. Outstanding monetary assets and monetary liabilities denominated in foreign currencies are translated using the closing exchange rate at the reporting date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

#### Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of the provision to be reimbursed, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss, net of reimbursement. If the effect of the time value of money is material, provisions are discounted using the current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

#### Contingencies

Contingent liabilities are not recognized in the financial statements but are disclosed in the notes to financial statements unless the outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but 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 position at the reporting date (adjusting events) are reflected in the financial statements. Events after the reporting date that are not adjusting events are disclosed in the notes to financial statements when material.

#### Standards Issued But Not Yet Adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2019. However, the Company has not applied the following relevant and applicable new or amended standards and interpretations in preparing these financial statements. Unless otherwise stated, none of these are expected to have a significant effect on the Company's financial statements.

The Company plans to adopt the following new or amended standards and interpretations on the respective effective dates, as applicable.

#### *Effective January 1, 2020*

- *Amendments to References to Conceptual Framework in PFRS Standards* sets out amendments to PFRS Standards, their accompanying documents and PFRS practice statements to reflect the issuance of the revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework). The 2018 Conceptual Framework includes a new chapter on measurement, guidance on reporting financial performance, improved definitions of an asset and a liability and guidance supporting these definitions, and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Some Standards, their accompanying documents and PFRS practice statements contain references to, or quotations from, the International Accounting Standards Committee (IASC)'s Framework for the Preparation and Presentation of Financial Statements adopted by the International Accounting Standards Board (IASB) in 2001 or the Conceptual Framework for Financial Reporting issued in 2010. The amendments update some of those references and quotations so that they refer to the 2018 Conceptual Framework, and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

The Company plans to adopt the amendments to standard on the required effective date.



- PAS 1, *Presentation of Financial Statements* and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Material (Amendments)* refine the definition of material. The amended definition of material states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify the definition of material and its application by:
  - (a.) raising the threshold at which information becomes material by replacing the term "could influence" with "could reasonably be expected to influence";
  - (b.) including the concept of "obscuring information" alongside the concept of "omitting" and "misstating" information in the definition;
  - (c.) clarifying that the users to which the definition refers are the primary users of general purpose financial statements referred to in the Conceptual Framework;
  - (d.) clarifying the explanatory paragraphs accompany the definition; and
  - (e.) aligning the wording of the definition of material across PFRS Standards and other publications.

The amendments are expected to help entities make better materiality judgments without substantively changing existing requirements.

The amendments apply prospectively. Earlier application is permitted.

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#### **4. Management's Use of Judgments, Accounting Estimates and Assumptions**

The preparation of the financial statements in accordance with PFRS requires management to exercise judgments, make accounting estimates and use assumptions that affect reported amounts of assets, liabilities, income and expenses and related disclosures. Future events may occur which will cause the assumptions used in arriving at the accounting estimates to change. The effects of any change in accounting estimates are reflected in the financial statements as they become reasonably determinable.

Accounting judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

##### Judgments

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

##### *Determination of the Company's Functional Currency*

The Company considers factors, including but not limited to, the currency that mainly influences sales prices of its goods and the currency in which receipts from operating activities are usually retained. Based on the economic substance of the underlying circumstances relevant to the Company, the functional currency has been determined to be the Philippine peso. It is the currency that mainly influences the Company's operations.

#### *Identifying a Lease*

The Company uses its judgment in assessing that a contract is, or contains, a lease when the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company has the right to control the asset if it has the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Company reassesses whether a contract is, or contains, a lease only if the terms and conditions of the contract are changed.

*As a Lessee.* The Company has entered into various contracts for the lease of warehouse space. The Company has determined that it has the right to control the use of the identified assets over their respective lease terms (see Note 16).

#### *Determining Term and Discount Rate of Lease Arrangements*

Where the Company is the lessee, management is required to make judgments about the lease term and the appropriate discount rate to calculate the present value of the lease payments.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases entered into by the Company as lessee, management uses the incremental borrowing rate, being the rate that the Company would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Company uses an approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Company and makes adjustments specific to the lease.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if it is reasonably certain that the lease will be extended (or not terminated) and, as such, included within lease liabilities.

For leases of office space and warehouse, the following factors are usually the most relevant:

- If any leasehold improvements are expected to have a significant remaining value, the Company is typically reasonably certain to extend (or not terminate).
- If there are significant penalties to terminate (or not extend), the Company is typically reasonably certain to extend (or not terminate).
- Otherwise, the Company considers other factors, including historical lease durations, the costs and business disruption required to replace the leased asset, enforceability of the option, and business and other developments.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Company becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and is within the lessee's control, for example, when significant investment in the store is made which has a useful life beyond the current lease term.

#### *Recognition of Revenue*

The Company uses its judgment in determining the timing of the transfer of control on the goods that it delivered. The Company determined that the control is transferred for sale of goods when the Company has transferred physical possession of the goods and obtained the right to payment for the goods which is upon the customer's acceptance of the goods at the customer's warehouse.

#### Accounting Estimates and Assumptions

The key estimates and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below:

#### *Allowance for Impairment Losses on Trade and Other Receivables and Refundable Deposits*

The Company uses the expected credit loss model in estimating the level of allowance which includes forecasts of future events and conditions. A credit loss is measured as the present value of all cash shortfalls (the difference between the cash flows that the Company expects to receive). The model represents a probability-weighted estimate of the difference over the remaining life of the receivables. The maturity of the Company's receivables is less than one year so the lifetime expected credit loss and the 12-month expected credit losses are similar. In addition, management assessed that the credit risk for its trade and other receivables and refundable deposits as at the reporting date are low as discussed in Note 19, therefore the Company did not have to assess whether a significant increase in credit risk has occurred. An increase in the allowance for impairment losses would increase the recorded operating expenses and decrease current assets.

The Company uses an allowance matrix to measure the ECLs of its trade receivables from individual customers. Loss rates are calculated using a "roll rate" method based on the probability of a receivable progressing through successive stages of delinquency to write-off. The loss rates computed were based on actual credit loss experience over the last three years. As the profile of the Company's trade receivables is substantially current and past due trade receivables are no more than one year, the computed estimated allowance using the loss rates is not significant to the Company's financial statements.

The combined carrying amounts of the Company's trade and other receivables and refundable deposits are P1,449,032,159 and P850,860,290 as at December 31, 2019 and 2018, respectively (see Notes 6, 10 and 19).

#### *Determination of Net Realizable Value (NRV) of Inventories*

The Company's estimates of the NRV of inventories are based on the most reliable evidence available at the time the estimates are made, of the amount that the inventories are expected to be realized. These estimates consider the inventory obsolescence, physical deterioration, fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. A new assessment is made at NRV in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is a clear evidence of an increase in NRV because of changes in economic circumstances, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised NRV.

The carrying amounts of inventories as at December 31, 2019 and 2018 are P3,427,765,849 and P2,541,957,090, respectively (see Note 7). No allowance to reduce inventory to NRV was recognized in 2019 and 2018.

#### *Estimation of Useful Lives of Property and Equipment*

The Company estimates the useful lives of property and equipment based on the period over which these 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 asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible that future financial performance could be materially affected by changes in these estimates brought about by changes in the factors mentioned. Any reduction in the estimated useful lives of the property and equipment would increase depreciation and amortization expense and decrease noncurrent assets.

The estimated useful lives of property and equipment is discussed in Note 3 to financial statements. There is no change in the estimated useful lives of property and equipment in 2019 and 2018.

The carrying amounts of property and equipment as at December 31, 2019 and 2018 amounted to P9,412,433 and P9,170,411, respectively (see Note 9).

#### *Estimation of Retirement Benefits Liability and Costs*

The cost of defined benefits retirement plans, as well as the present value of the retirement benefits obligation, is determined using actuarial valuations. The actuarial valuations involve making various assumptions. These include the determination of the discount rates, and future salary increases, among others. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefits obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting period.

The Company has retirement benefits liability amounting to P2,340,592 and P1,112,907 as at December 31, 2019 and 2018, respectively (see Note 17).

#### *Recognition of Deferred Income Tax Assets*

The Company reviews its deferred income tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. The Company also reviews the expected timing and tax rates upon reversal of temporary differences and adjusts the impact on deferred income tax accordingly. The Company's assessment on the recognition of deferred income tax assets is based on the forecasted taxable income of the subsequent reporting periods. This forecast is based on the Company's past results and future expectations on revenues and expenses. While the Company believes that its assumptions are appropriate and reasonable, significant changes in these assumptions may materially affect the Company's assessment of the realizability of deferred income tax assets and may lead to future addition to the provision for deferred income tax.

In 2019 and 2018, the Company elected to avail of the optional standard deduction (OSD) which is equivalent to 40% of total gross income. The Company intends to continue its availment of the optional standard deduction in the subsequent years.

As at December 31, 2019 and 2018, the Company has not recognized deferred income tax assets arising from temporary differences amounting to a total of P3,417,913 and P8,203,410, respectively (see Note 18).

## 5. Cash

This account consists of:

	Note	2019	2018
Cash on hand		<b>P439,000</b>	P421,000
Cash in banks	19	<b>167,406,035</b>	82,180,501
		<b>P167,845,035</b>	<b>P82,601,501</b>

Cash in banks earns interest at the respective bank deposit rates.

Interest income recognized in profit or loss amounted to P3,195,077 and P2,397,647 in 2019 and 2018, respectively.

## 6. Trade and Other Receivables

This account consists of:

	Note	2019	2018
Trade			
Third parties		<b>P871,332,204</b>	P657,395,462
Related parties	13	<b>567,717,139</b>	185,699,843
Nontrade		<b>5,393,020</b>	5,091,591
Others		<b>461,917</b>	527,511
	19	<b>P1,444,904,280</b>	<b>P848,714,407</b>

Trade receivables are non-interest-bearing and are generally on a 30 to 60-day credit term.

Non-trade receivables pertain to receivables from suppliers for the reimbursements of expenses incurred by the Company for brand promotions. These are non-interest-bearing and are generally on a 30-day credit term.

There was no allowance for impairment losses on receivables as at December 31, 2019 and 2018.

## 7. Inventories

This account consists of:

	Note	2019	2018
At cost:			
Spirits		<b>P3,392,677,145</b>	P2,521,243,647
Wines		<b>34,883,522</b>	20,713,443
Others		<b>205,182</b>	-
	15	<b>P3,427,765,849</b>	<b>P2,541,957,090</b>

Cost of goods sold recognized in profit or loss amounted to P6,130,312,640 and P4,019,765,423 in 2019 and 2018, respectively (see Note 15).



## 8. Prepaid Expenses and Other Current Assets

This account consists of:

	2019	2018
Prepaid duties and taxes	P328,088,254	P543,115,123
Advances to suppliers	84,110,586	105,397,992
Input VAT	28,672,444	91,102,251
Prepaid import charges	1,715,615	369,522
Other prepaid expenses	2,695,968	313,719
	<b>P445,282,867</b>	<b>P740,298,607</b>

Prepaid duties and taxes include advance payment for excise taxes, customs duties and seals for purchased goods not yet received.

Advances to suppliers pertain to partial down payment made by the Company to suppliers which will be applied against future billings.

## 9. Property and Equipment

The movements and balances in this account are as follows:

	Transportation and Delivery Equipment	Leasehold Improvements	Office Equipment	Furniture and Fixtures	Computer Software License	Total
<b>Cost</b>						
December 31, 2017	P7,389,343	P2,295,229	P1,523,796	P1,759,428	P -	P12,967,796
Additions	6,635,464	-	152,898	16,000	-	6,804,362
December 31, 2018	14,024,807	2,295,229	1,676,694	1,775,428	-	19,772,158
Additions	1,848,214	-	566,875	-	1,021,152	3,436,241
December 31, 2019	15,873,021	2,295,229	2,243,569	1,775,428	1,021,152	23,208,399
<b>Accumulated Depreciation and Amortization</b>						
December 31, 2017	3,418,644	1,391,060	1,334,940	1,726,290	-	7,870,924
Depreciation and amortization	1,800,905	706,140	184,631	39,147	-	2,730,823
December 31, 2018	5,219,549	2,097,200	1,519,571	1,765,427	-	10,601,747
Depreciation and amortization	2,503,146	198,029	249,144	8,000	235,900	3,194,219
December 31, 2019	7,722,695	2,295,229	1,768,716	1,773,427	235,900	13,795,966
<b>Net Book Value</b>						
December 31, 2018	P8,805,258	P198,029	P157,123	P10,001	P -	P9,170,411
December 31, 2019	<b>P8,150,326</b>	<b>P -</b>	<b>P474,854</b>	<b>P2,001</b>	<b>P785,252</b>	<b>P9,412,433</b>

Depreciation and amortization expense for the years ended December 31, 2019 and 2018 were charged as part of "Operating Expenses" in profit or loss.

## 10. Refundable Deposits

This account consists of:

	Note	2019	2018
Security deposits	16	P3,981,061	P2,007,564
Others		146,818	138,319
	19	<b>P4,127,879</b>	<b>P2,145,883</b>

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## 11. Trade and Other Payables

This account consists of:

	<i>Note</i>	2019	2018 (As restated - see Note 22)
Trade payables	19	P992,362,760	P496,420,164
Non-trade payables	19	112,569,905	75,505,513
Accrued expenses	19	17,486,354	6,459,610
Statutory obligations		2,546,406	3,900,026
		<b>P1,124,965,435</b>	<b>P582,285,313</b>

Trade payables are non-interest-bearing and are generally on a 30 to 60-day payment term.

Non-trade payables are amounts owed to non-trade suppliers such as manpower agencies, freight companies and other non-trade payment transactions. These are non-interest-bearing and are generally on a 30-day payment term.

Accrued expenses consist of accruals for interest, utilities, advertisement and other operating expenses.

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## 12. Notes Payable

In 2018, the Company entered into various unsecured, short-term loans with maturities of less than one year from Metropolitan Bank and Trust Company and Asia United Bank totaling to P203,000,000 with a fixed annual interest of 5.25% to 6.00% and P150,000,000 with fixed annual interest of 6.00%, respectively. These notes were paid in 2019.

On November 20, 2019, the Company obtained an unsecured, three-month loan from Metropolitan Bank and Trust Company amounting to P120,000,000 with a fixed interest of 4.50%.

The proceed from these loan availments were intended to finance the Company's working capital requirements.

Interest expense recognized in profit or loss relating to notes payable amounted to P6,745,000 and P7,560,695 for the years ended December 31, 2019 and 2018, respectively.

### 13. Related Party Transactions

Transactions and account balances with related parties as at and for the years ended December 31 are as follows:

Category/ Transaction	Year	Ref	Transactions During the Year	Outstanding Balance		Terms	Conditions
				Receivable	Payable		
<b>Parent Company</b>							
• Interest expense	2019	c	P -	P -	P -	Annual interest at 1.8%, payable on a monthly basis	Unsecured
	2018		1,750,100	-	-		
• Dividends	2019	14	50,000,000	-	50,000,000	Due and demandable	Unsecured
	2018		100,000,000	-	200,000,000		
<b>Entities under Common Control</b>							
• Sales of goods	2019	6, a	2,375,870,288	567,717,139	-	30 days credit term; non-interest bearing	Unsecured, no impairment
	2018		1,313,414,818	185,699,643	-		
• Lease expense	2019	16, b	14,472,561	-	27,559,957	Payable on a monthly basis	Unsecured
	2018		12,127,004	-	21,179,433		
<b>Stockholder</b>							
• Advances	2019	d	-	-	659,500,000	2 years, annual interest of 4%	Unsecured
	2018		659,500,000	-	659,500,000		
• Interest expense	2019	d	26,663,694	-	-	Annual interest of 4.00%, payable on a monthly basis	Unsecured
	2018		4,134,722	-	4,134,722		
	<b>2019</b>			<b>P567,717,139</b>	<b>P737,059,957</b>		
	<b>2018</b>			<b>P185,699,643</b>	<b>P884,814,155</b>		

- In the normal course of business, the Company distributes wines, liquors and water to entities under common control.
- The Company entered into lease agreements with an entity under common control for its office space and warehouse. Lease expenses include amortization expense on ROU assets and interest expense on lease liabilities (see Note 16).
- In prior years, the Company received cash advances from its Parent Company in a form of promissory notes. These advances earn fixed annual interest rate of 1.8% with maturities of two (2) years. The principal, amounting to P234,000,000, and related interest, amounting to P1,750,100, were paid by the Company in 2018.
- In 2018, the Company received cash advances from a stockholder in a form of promissory notes. These advances earn fixed annual interest rate of 4.00% with maturities of one (1) year. The advances were intended for the Company's working capital requirements to finance inventory purchases.

On November 5, 2019, both parties renewed the promissory note for the same amount and interest rate with a new maturity date of November 21, 2021.

Interest expense recognized in profit or loss relating to advances from a stockholder amounted to P26,663,694 and P4,134,722 for the years ended December 31, 2019 and 2018, respectively. As at December 31, 2019 and 2018, outstanding interest payable related to these loans recorded as part of "Accrued expenses" under "Trade and other payables" account in the statement of financial position amounted to nil and P4,134,722, respectively (see Note 11).

There is no key management compensation since the key management roles are functionally domiciled under the Parent Company.

Amounts owed by and owed to related parties are to be settled in cash.



#### 14. Equity

##### Capital Stock

The balances as at December 31, 2019 and 2018 are as follows:

	Number of Shares	Amount
<b>Authorized</b> P100 par value	7,500,000	P750,000,000
<b>Issued and Outstanding</b>		
Balance at beginning and end of year	7,500,000	P750,000,000

Ordinary shares carry one vote per share and a right to dividends.

##### Declaration of Dividends

On November 28, 2017, the Company's BOD approved the declaration of cash dividends of P13.33 per share or an aggregate amount of P100,000,000, payable to stockholders of record as of the same date. These were paid in 2019.

On December 18, 2018, the Company's BOD approved the declaration of cash dividends of P13.33 per share or an aggregate amount of P100,000,000, payable to stockholders of record as of the same date. These were paid in 2019.

On December 5, 2019, the Company's BOD approved the declaration of cash dividends of P6.66 per share or an aggregate amount of P50,000,000 payable to stockholders of record as of the same date. These dividends are outstanding as of December 31, 2019.

##### Retained Earnings

Under the Philippine Corporation Code (the Code), stock corporations are prohibited from retaining surplus profits in excess of 100% of their paid-up capital stock except when justified by any of the reasons mentioned in the code.

On December 13, 2018, the BOD approved the appropriation of P950,000,000 from the Company's unappropriated retained earnings to finance the acquisition of land, and construction and establishment of new warehouse and related facilities. The construction is expected to be completed in December 2020.

As at December 31, 2019, the Company has retained earnings in excess of its paid-up capital amounting to P952,740,656. These retained earnings, which resulted substantially from the net income for the current year, will be subjected to yearly cycle of capital structure review wherein management will determine the amount of cash dividends to be declared, subject to statutory approvals and clearances. It is the Company's practice to declare cash dividends on a yearly basis subject to the availability of cash.

## 15. Cost of Goods Sold

This account consists of:

	Note	2019	2018
Inventory at beginning of year	7	P2,541,957,090	P1,262,556,953
Net purchases		7,016,121,399	5,299,165,560
Total goods available for sale		9,558,078,489	6,561,722,513
Inventory at end of year	7	3,427,765,849	2,541,957,090
		P6,130,312,640	P4,019,765,423

## 16. Lease Agreements

### Company as Lessee

- The Company entered into a lease agreement with an entity under common control for its office space with an area of 150.84 square meters. The lease is for a period of two (2) years until June 30, 2016. The lease was renewed for another 3 years until June 30, 2019. The parties have agreed to further renew the lease for a period of three (3) years from July 1, 2019 to June 30, 2022. The lease has an annual escalation rate of 5%.
- The Company entered into a lease agreement with an entity under common control for a warehouse with an area of 5,770.84 square meters. The lease is for a period of two (2) years commencing on January 1, 2016 until December 31, 2017. The lease was renewed for another three (3) years until December 31, 2020.
- The Company entered into a lease agreement with an entity under common control for a warehouse with an area of 2,025.38 square meters. The lease is for a period of five (5) years from May 1, 2019 to April 30, 2024. The lease has annual escalation rate of 3%.

The lease payments provides for, among others, security deposits amounting to P3,981,061 and P2,007,564 as at December 31, 2019 and 2018, respectively, which are shown under "Refundable Deposits" account in the statements of financial position (see Note 10).

On transition to PFRS 16, the Company recognized ROU assets in relation to lease agreements (a) and (b). As at January 1, 2018, the ROU assets and lease liabilities recognized amounted to P1,066,473 and P1,141,075, respectively.

The movement of the ROU assets and lease liabilities for the years ended December 31, 2019 and 2018 are as follows:

### i. Right-of-Use Assets

	Note	2019	2018 (As restated - see Note 22)
Balance at beginning of year		P20,667,907	P1,066,473
Additions		19,225,021	30,468,624
Amortization charge for the year	13	(13,157,340)	(10,867,190)
Balance at end of year		P26,735,588	P20,667,907

ii. Lease Liabilities

	Note	2019	2018 (As restated - see Note 22)
Balance at beginning of year		P21,179,433	P1,141,075
Additions		19,225,021	30,468,624
Interest charge for the year	13	1,315,201	1,259,814
Payments made		(14,159,698)	(11,690,080)
Balance at end of year		P27,559,957	P21,179,433

Maturity analyses of the undiscounted lease liabilities as at December 31, 2019 and 2018 are as follows:

	Undiscounted Lease Payments	Interest	Present Value of Lease Liabilities
Not later than one year	P15,416,045	P984,753	P14,431,292
Later than one year but not later than five years	14,164,593	1,035,928	13,128,665
Balance at December 31, 2019	P29,580,638	P2,020,681	P27,559,957

	Undiscounted Lease Payments	Interest	Present Value of Lease Liabilities
Not later than one year	P11,308,034	P763,514	P10,544,520
Later than one year but not later than five years	10,906,888	271,975	10,634,913
Balance at December 31, 2018	P22,214,922	P1,035,489	P21,179,433

As at December 31, 2019 and 2018, the Company's lease liabilities are classified in the statements of financial positions as follows:

	2019	2018 (As restated - see Note 22)
Current	P14,431,292	P10,544,520
Noncurrent	13,128,665	10,634,913
	P27,559,957	P21,179,433

iii. Amounts recognized in profit or loss

	Note	2019	2018 (As restated - see Note 22)
Amortization expense		P13,157,340	P10,867,190
Interest on lease liabilities		1,315,201	1,259,814
	13	P14,472,541	P12,127,004

iv. Amounts recognized in the statement of cash flows

	2019	2018 (As restated - see Note 22)
Total cash outflow for leases	P14,159,698	P11,690,080

### 17. Retirement Benefits Liability

The Company has an unfunded, noncontributory, defined benefits retirement plan covering all of its regular, full-time employees. Under the plan, the employees are entitled to retirement benefits equivalent to an amount computed based on Republic Act No. 7641, *Retirement Pay Law*, equivalent to one-half month's salary for every year of service, with six months or more of service considered as one year.

Costs are determined in accordance with the actuarial studies made for the plan. Annual cost is determined using the projected unit credit method. The Company's latest actuarial valuation date is December 31, 2019.

The following table shows the reconciliation from the opening balances to the closing balances for retirement benefits liability and its components:

	2019	2018
<b>Balance at beginning of year</b>	<b>P1,112,907</b>	<b>P1,550,561</b>
<b>Recognized in Profit or Loss</b>		
Interest cost	83,691	83,420
Current service cost	219,313	199,914
	<b>303,004</b>	<b>283,334</b>
<b>Recognized in Other Comprehensive Income</b>		
Actuarial loss (gain) arising from:		
Change in financial assumptions	1,258,666	(315,195)
Change in demographic assumptions	(383,834)	(952,123)
Experience adjustments	49,849	666,330
	<b>924,681</b>	<b>(600,988)</b>
Benefits paid	-	(120,000)
<b>Balance at end of year</b>	<b>P2,340,592</b>	<b>P1,112,907</b>

The retirement benefits costs is recognized as part of "Salaries and other employee benefits" account under operating expenses in profit or loss.

As at December 31, 2019 and 2018, accumulated remeasurements on retirement benefits amounted to P364,826 loss and P559,855 gain, respectively, as presented in the statements of financial position.

The plan exposes the Company to actuarial risks such as interest rate risk, longevity risk and salary risk as follows:

#### *Interest Risk*

The present value of the defined benefits obligation is calculated using a discount rate determined by reference to market yields to government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation.

#### *Longevity and Salary Risks*

The present value of the defined obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

The principal actuarial assumptions (in percentages) used to determine retirement benefits are as follows:

	2019	2018
Discount rate	5.21%	7.53%
Future salary increases	8.00%	3.00%

Assumptions for mortality and disability rates are based on published statistics and mortality and disability tables.

The weighted average duration of defined benefits obligation is 11.8 and 11.3 years as at December 31, 2019 and 2018, respectively

As at December 31, the reasonably possible changes to one of the relevant actuarial assumptions, while holding all other assumptions constant, would have affected the defined benefits liability by the amounts below:

	2019		2018	
	Defined Benefits Liability 1 Percent increase	Defined Benefits Liability 1 Percent Decrease	Defined Benefits Liability 1 Percent Increase	Defined Benefits Liability 1 Percent Decrease
Discount rate	(P145,351)	P98,539	(P94,820)	P72,562
Salary increase rate	210,653	(163,841)	44,516	(22,258)

Although the analysis does not take into account the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumption shown.

#### *Funding Arrangements*

The plan is unfunded and noncontributory. Benefit claims under the retirement benefits plan obligation are paid directly by the Company when they become due.

#### *Asset-Liability Matching (ALM)*

The Company does not perform any ALM study. The Company has no plan assets to match against liabilities under the retirement plan.

Maturity analyses based on a ten (10) year projection of the expected future benefit payments is as follows:

	December 31, 2019				
	Carrying Amount	Contractual Cash Flows	Within 1 Year	Within 1-5 Years	More than 5 Years
Retirement benefits liability	P2,340,592	P3,268,187	P -	P89,252	P3,178,935



	December 31, 2018				
	Carrying Amount	Contractual Cash Flows	Within 1 Year	Within 1-5 Years	More than 5 Years
Retirement benefits liability	P1,112,907	P1,816,821	P -	P -	P1,816,821

## 18. Income Taxes

The Company's provision for income tax are all current which represents regular corporate income tax (RCIT) in both years.

The Company elected to avail of the optional standard deduction (OSD) which is equivalent to 40% of total gross income in 2019 and 2018.

The reconciliation of the provision for income tax computed at the statutory income tax rate and the provision for income tax shown in profit or loss for the years ended December 31 is as follows:

	2019	2018
Income before income tax	<b>P1,479,997,626</b>	P954,499,542
Provision for income tax at the statutory income tax rate of 30%	<b>P443,999,288</b>	P286,349,863
Additions to (reductions from) income taxes resulting to the tax effects of:		
Availment of optional standard deduction	<b>(246,873,886)</b>	(163,790,600)
Non-deductible expenses	<b>175,857,003</b>	121,692,160
Change in unrecognized deferred income tax asset	<b>(1,713,053)</b>	2,153,770
Interest income subjected to final tax	<b>(958,523)</b>	(719,294)
Provision for income tax	<b>P370,310,829</b>	P245,685,899

The following table shows the amounts of temporary differences for which no deferred income tax asset was recognized because management believes that it is not probable that the tax benefits of these temporary differences will be availed of as the Company intends to continue its availment of the optional standard deduction in the subsequent years:

	2019	2018
Retirement benefits liability	<b>P2,340,592</b>	P1,112,907
PFRS16, Leases adjustment	<b>824,369</b>	511,526
Unrealized foreign exchange losses - net	<b>252,952</b>	6,578,977
	<b>P3,417,913</b>	P8,203,410

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## 19. Financial Risk and Capital Management Objectives and Policies

### Objectives and Policies

The Company's BOD has overall responsibility for the establishment and oversight of the Company's risk management framework. The BOD has delegated to management the responsibility of developing and monitoring the Company's risk management policies.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The BOD oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

The Company has exposure to the following risks from its use of financial instruments:

- Credit Risk
- Liquidity Risk
- Market Risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risks, and the Company's management of capital.

The Company's overall risk management program seeks to minimize potential adverse effects on the financial performance of the Company. There were no changes in the exposures to each of the above risks and to the Company's objectives, policies and processes for measuring and managing the risk from the previous period. The policies for managing specific risks are summarized below:

### Credit Risk

Credit risk represents the risk of loss the Company would incur if credit customers and counterparties fail to perform their contractual obligations. The Company's credit risk arises from the Company's use of its financial assets. Credit risk management involves entering into financial transactions only with counterparties with acceptable credit rating.

The carrying amount of financial assets represents the maximum credit exposure to credit risk as at December 31 as follows:

	<b>Note</b>	<b>2019</b>	<b>2018</b>
Cash in banks	5	P167,406,035	P82,180,501
Trade and other receivables	6	1,444,904,280	848,714,407
Refundable deposits	10	4,127,879	2,145,883
		<b>P1,616,438,194</b>	<b>P933,040,791</b>

As at December 31, 2019 and 2018, the aging per class of financial assets is as follows:

	December 31, 2019					
	Neither Past Due nor Impaired	Past Due			Impaired	Total
		1 to 30 Days	31 to 120 Days	More than 120 Days		
Cash in banks	P167,406,035	P -	P -	P -	P -	P167,406,035
Trade and other receivables	1,147,239,146	254,138,824	43,526,310	-	-	1,444,904,280
Refundable deposits	4,127,879	-	-	-	-	4,127,879
	P1,318,773,060	P254,138,824	P43,526,310	P -	P -	P1,616,438,194

	December 31, 2018					
	Neither Past Due nor Impaired	Past Due			Impaired	Total
		1 to 30 Days	31 to 120 Days	More than 120 Days		
Cash in banks	P82,180,501	P -	P -	P -	P -	P82,180,501
Trade and other receivables	743,270,866	104,759,320	614,636	69,785	-	848,714,407
Refundable deposits	2,145,883	-	-	-	-	2,145,883
	P827,597,050	P104,759,320	P614,636	P69,785	P -	P933,040,791

As at December 31, 2019 and 2018, no allowance for impairment losses on trade and other receivables was recognized.

Based on the historical default rates, the Company believes that no impairment allowance is necessary in respect of trade and other receivables that are past due but not impaired because such accounts relate to customers that have good payment records with the Company. On the other hand, the Company believes that no impairment loss is necessary in respect of other financial assets since they are neither past due nor impaired.

The Company's policy is to enter into transactions with a diversity of credit worthy parties to mitigate any significant concentration of credit risk. There is no significant concentration of credit risk within the Company.

As at December 31, 2019 and 2018, the Company does not expect any counterparty, other than trade customers, to fail in meeting its obligations, thus, related risk is deemed to be insignificant.

#### *Credit Quality*

In monitoring and controlling credit extended to counterparty, the Company adopts a comprehensive credit rating system based on financial and non-financial assessments of its customers. Financial factors being considered comprised of the financial standing of the customer while the non-financial aspects include but are not limited to the assessment of the customer's nature of business, management profile, industry background, payment habit and both present and potential business dealings with the Company.

As at December 31, 2019 and 2018, the cash in banks, trade receivables and refundable deposits which are neither past due nor impaired are categorized under high grade quality.

The Company assessed the credit quality of the following financial assets that are neither past due nor impaired as follows:

- a. Cash in banks were assessed as high grade since these are deposited in reputable banks with a good credit standing, which have a low profitability of insolvency and can be withdrawn anytime. The credit quality of these financial assets is considered to be high grade.
- b. Trade and other receivables were assessed as high grade since these have a high probability of collection and there is no history of default.



- c. Refundable deposits were assessed as high grade since these security deposits are refundable at the end of the lease term which is expected from a reputable service provider.

*Expected Credit Loss Assessment as at December 31, 2019*

The Company allocates each exposure to a credit risk on data that are determined to be predictive of the risk of loss (including but not limited to external ratings, audited financial assets, management accounts and cash flow projections and available press information about customers) and applying expected credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default.

In measuring the expected credit losses, the trade and other receivables have been assessed on a collective basis as they pose shared credit risk characteristics. They have been grouped based on the days past due.

The following table provides information about the exposure to credit risk for trade and other receivables as at December 31, 2019 and 2018:

	2019		
	Gross Carrying Amount	Impairment Loss Allowance	Credit-impaired
Current (not past due)	P1,147,239,146	P -	No
1 - 30 days past due	254,138,824	-	No
31 - 120 days past due	43,526,310	-	No
Balance at December 31, 2019	P1,444,904,280	P -	

	2018		
	Gross Carrying Amount	Impairment Loss Allowance	Credit-impaired
Current (not past due)	P743,270,666	P -	No
1 - 30 days past due	104,759,320	-	No
31 - 120 days past due	614,636	-	No
More than 120 days	69,785	-	No
Balance at December 31, 2018	P848,714,407	P -	

The Company uses an allowance matrix to measure the ECLs of trade and other receivables from individual customers.

Loss rates are based on actual credit loss experience over two years considering circumstances at the reporting date. Any adjustment to the loss rates for forecasts of future economic conditions are not expected to be material. The Company applies the simplified approach in providing for expected credit losses prescribed by PFRS 9, which permits the use of the lifetime expected loss provision and applies a provision matrix.

The maturity of the Company's receivables is less than one year so the lifetime expected credit losses and the 12-month expected credit losses are similar.

The additional allowance for impairment in respect of trade and other receivables of the Company as a result of the expected credit loss assessment amounted to nil as at December 31, 2019 and 2018. The application of the expected loss rates to the trade and other receivables of the Company does not have a material impact on the financial statements, hence, no additional provision was recognized during 2019.

Exposures within each credit risk grade are assessed based on delinquency and actual credit loss experience. The Company considered both historical loss rate and forward-looking assumptions. The Company assessed that the impact of forward-looking assumption is immaterial.

#### Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk by maintaining a balance between continuity of funding and flexibility in operations. Treasury controls and procedures are in place to ensure that sufficient cash is maintained to cover daily operational and working capital requirements, as well as capital expenditures and loan payments. Management closely monitors the Company's future and contingent obligations and sets up required cash reserves as necessary in accordance with internal requirements.

The following are contractual maturities of financial liabilities as at December 31:

	December 31, 2019			
	Carrying Amount	Contractual Cash Flows	1 Year or Less	More than 1 Year
<b>Financial Liabilities</b>				
Trade and other payables*	P1,122,419,029	P1,122,419,029	P1,122,419,029	P -
Notes payable**	120,000,000	120,300,000	120,300,000	-
Advances from a stockholder***	659,500,000	708,522,833	26,380,000	682,142,833
Dividends payable	50,000,000	50,000,000	50,000,000	-
Lease liabilities	27,559,957	29,580,638	15,416,045	14,164,593
<b>Total</b>	<b>P1,979,478,986</b>	<b>P2,030,822,500</b>	<b>P1,334,515,074</b>	<b>P696,307,426</b>

\*Excluding statutory obligations amounting to P2,546,406.

\*\*Including future interest payable with interest rates of 4.50%.

\*\*\*Including of future interest payable with interest rates of 4.00%

	December 31, 2018			
	Carrying Amount	Contractual Cash Flows	1 Year or Less	More than 1 Year
<b>Financial Liabilities</b>				
Trade and other payables*	P574,250,565	P574,250,565	P574,250,565	P -
Notes payable**	353,000,000	355,958,250	355,958,250	-
Advances from a stockholder***	663,634,722	690,014,722	690,014,722	-
Dividends payable	200,000,000	200,000,000	200,000,000	-
Lease liabilities	21,179,433	22,214,922	11,308,034	10,906,888
<b>Total</b>	<b>P1,812,064,720</b>	<b>P1,842,438,459</b>	<b>P1,831,531,571</b>	<b>P10,906,888</b>

\*Excluding statutory obligations and accrued interest payable amounting to P3,900,026 and P4,134,722 (see Notes 11 and 13).

\*\*Including future interest payable with interest rates of 5.25%.

\*\*\*Including accrued interest payable amounting to P4,134,722 and future interest payable with interest rates of 4.00% (see Note 13).

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

### Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and other market prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. The Company is subject to various risks, including foreign currency risk and interest rate risk.

### *Interest Rate Risk*

Interest rate risks 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's exposure to the risk for changes in market interest rates relates mainly to the Company's notes payable, advances from a stockholder and advances from Parent Company. The Company manages this risk by transacting its loans either with short-term maturities or with fixed interest rates. Accordingly, management believes that the Company does not have significant interest rate risk.

### *Foreign Currency Exchange Risk*

Foreign currency exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's exposure to foreign currency risk relates primarily to the Company's foreign currency-denominated monetary assets and monetary liabilities. The currencies in which these transactions are primarily denominated are in United States dollar (USD), Singaporean dollar (SGD) and Euro (EUR).

The following table shows the Company's foreign currency-denominated monetary assets and monetary liabilities and their Philippine peso (PHP) equivalents as at December 31:

	December 31, 2019			
	USD	SGD	EUR	PHP Equivalent
Foreign currency - denominated monetary asset:				
Cash	325,460	-	-	16,615,167
Foreign currency - denominated monetary liabilities				
Trade payables	20,538	57,036	16,835,426	953,390,742
Net foreign currency - denominated monetary asset (liabilities)	304,922	(57,036)	(16,835,426)	(936,875,575)
	December 31, 2018			
	USD	SGD	EUR	PHP Equivalent
Foreign currency - denominated monetary assets				
Cash	41,406	-	-	2,183,099
Trade receivables	1,668,325	-	-	87,433,551
	1,699,731	-	-	89,616,650
Foreign currency - denominated monetary liabilities				
Trade payable	165,970	21,100	7,868,164	484,099,184
Net foreign currency - denominated monetary asset (liabilities)	1,533,761	(21,100)	(7,868,164)	(394,482,534)

In translating the foreign currency-denominated monetary assets and monetary liabilities into Philippine peso amounts, the significant exchange rates applied are as follows:

	2019	2018
USD	50.74	52.72
SGD	37.49	38.47
EUR	56.35	60.31

The following table demonstrates sensitivity of cash flows due to changes in foreign exchange rates with all variables held constant.

	December 31, 2019	
	Percentage Decrease in Foreign Exchange Rates	Increase (Decrease) in Income before Income Tax
USD	(3.76%)	(P581,071)
SGD	(2.55%)	54,571
EUR	(6.57%)	62,317,633

	December 31, 2018	
	Percentage Increase in Foreign Exchange Rates	Increase (Decrease) in Income before Income Tax
USD	6%	P4,851,593
SGD	3%	(24,352)
EUR	2%	(9,490,579)

Changes in foreign exchange rates are based on the average of the banks' forecasted closing exchange rates during the first quarter of the following calendar year. A movement in the opposite direction would increase/decrease income before income tax by the same amount, on the basis that all other variables remains constant.

#### Capital Risk Management

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

The Company manages its capital structure and makes adjustments, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Company may pay-off existing debts, return capital to stockholders or issue new shares.

The Company defines capital as paid-in capital stock and retained earnings.

There were no changes in the Company's approach to capital management during the year.

The Chief Financial Officer has the overall responsibility for monitoring of capital in proportion to risk. Profiles for capital ratios are set in the light of changes in the Company's external environment and the risks underlying the Company's business operations and industry.

- The Company is not subject to externally-imposed capital requirements.

## 20. Fair Values of Financial Instruments

### *Cash, Trade and Other Receivables, Trade and Other Payables and Dividends Payable*

The carrying amounts of the Company's cash, trade and other receivables, trade and other payables (excluding statutory obligations) and dividends payable approximate their fair values due to the short-term maturities of these financial instruments.

### *Refundable Deposits*

The carrying amount of refundable deposit approximates its fair values as the impact of discounting is not significant.

### *Notes Payable and Advances from a Stockholder*

The estimated fair values of notes payable and advances from a stockholder are based on the present value of expected future cash flows using the applicable market rates for similar types of loans at reporting date. The difference between the carrying amount and fair value of notes payable and advances from a stockholder is considered immaterial by management.

### *Lease Liabilities*

The fair value of lease liabilities was estimated as the present value of all future cash flows discounted using the incremental borrowing rate.

## 21. Reconciliation Between the Opening and Closing Balances for Liabilities Arising from Financing Activities

Reconciliation of movements of liabilities to cash flows arising from financing activities are as follows:

	December 31, 2019				
	Notes Payable	Accrued Interests	Advances from a Stockholder	Dividends Payable	Total
Balances at beginning of year	P353,000,000	P4,134,722	P659,500,000	P200,000,000	P1,216,634,722
Payments of:					
Notes payable	(353,000,000)	-	-	-	(353,000,000)
Interest	-	(37,543,416)	-	-	(37,543,416)
Dividends payable	-	-	-	(200,000,000)	(200,000,000)
Proceeds from availment of:					
Notes payable	120,000,000	-	-	-	120,000,000
Interest expense	-	33,408,694	-	-	33,408,694
Dividends declared	-	-	-	50,000,000	50,000,000
Balances at end of year	P120,000,000	P -	P659,500,000	P50,000,000	P829,500,000
	December 31, 2018				
	Notes Payable	Accrued Interests	Advances from a Stockholder and Parent Company	Dividends Payable	Total
Balances at beginning of year	P700,000,000	P940,732	P234,000,000	P100,000,000	P1,034,940,732
Payments to:					
Advances from Parent Company	-	-	(234,000,000)	-	(234,000,000)
Notes payable	(700,000,000)	-	-	-	(700,000,000)
Interest	-	(10,251,527)	-	-	(10,251,527)
Proceeds from availment of:					
Notes payable	353,000,000	-	-	-	353,000,000
Advances from a stockholder	-	-	859,500,000	-	859,500,000
Interest expense	-	13,445,517	-	-	13,445,517
Dividends declared	-	-	-	100,000,000	100,000,000
Balances at end of year	P353,000,000	P4,134,722	P659,500,000	P200,000,000	P1,216,634,722



## 22. Prior Period Restatements

The Company restated its statement of financial position as at December 31, 2018 and January 1, 2018 and its profit or loss for the year ended December 31, 2018 in accordance with PAS 8 as effect of adoption of PFRS 16 (see Note 16). These restatements have material impact on the statement of financial position and profit or loss as at the beginning of the earliest period presented. The following tables summarizes the impacts on the Company's financial statements.

December 31, 2018	As Previously Reported	Adjustments	As Restated
<b>Statement of Financial Position</b>			
ROU assets - net	P -	P20,667,907	P20,667,907
Trade and other payables	582,320,705	(35,392)	582,285,313
Lease liabilities - current	-	10,544,520	10,544,520
Lease liabilities - net of current portion	-	10,634,913	10,634,913
Retained earnings - unappropriated	643,529,993	(476,134)	643,053,859
<b>Statement of Comprehensive Income</b>			
Depreciation and amortization	P2,730,823	P10,867,190	P13,598,013
Rent	11,690,079	(11,690,079)	-
Interest expense	13,445,517	1,259,814	14,705,331
Net income	709,250,568	(436,925)	708,813,643
<b>Statement of Cash Flows</b>			
Net cash used in operating activities	(P242,753,161)	P11,798,510	(P230,954,651)
Net cash used in investing activities	(6,804,362)	(108,430)	(6,912,792)
Net cash from financing activities	68,248,473	(11,690,080)	56,558,393
January 1, 2018	As Previously Reported	Adjustments	As Restated
<b>Statement of Financial Position</b>			
ROU assets - net	P -	P1,066,473	P1,066,473
Trade and other payables	183,718,013	(35,393)	183,682,620
Lease liabilities - current	-	745,356	745,356
Lease liabilities - net of current portion	-	395,719	395,719
Retained earnings	984,279,425	(39,209)	984,240,216

## 23. Subsequent Events

On March 8, 2020, under Proclamation 922, the President of the Philippines (the "President") has declared a state of public health emergency due to the spread of the Corona Virus Disease 2019 (COVID-19) in the country. Subsequently on March 16, 2020, under Proclamation 929, the previously declared state of public health emergency was upgraded into a state of calamity. To manage the spread of the COVID-19, the entire Luzon has been placed under an Enhanced Community Quarantine (ECQ), effective from March 17, 2020 until April 12, 2020, which was further extended to May 15, 2020. During the ECQ, a strict home quarantine is implemented in all households, all public transportation are suspended, provision for food and essential health services is regulated and the presence of uniformed military personnel to enforce quarantine procedures is heightened. Liquor bans have also been implemented in several areas under ECQ wherein drinking alcoholic beverages in public areas is prohibited and retail stores are only allowed to sell the same during a limited time in the day. On May 16, 2020 onwards, the Philippine government placed different areas of the country either Modified Enhanced Community Quarantine (MECQ) or General Community Quarantine (GCQ), depending on the assessed risk. Several local government units lifted the liquor bans under MECQ and GCQ, subject to certain restrictions. Since the Company's primary operation is the importation and distribution of wines and spirits, the Company was only able to operate limitedly amidst the quarantine period. Moreover, the Company continues to have a skeletal workforce to oversee and make sure facilities, vital equipment, sanitation and security are adequately and properly maintained.

The Company has assessed that the ECQ being implemented by the government will have a potential unfavorable impact on the Company's revenues including the collection of its receivables, among others. However, the quantitative impact of this event on the Company's financial performance for the succeeding quarters is not yet determinable at this date. Nonetheless, the expected decline in operations does not pose a material uncertainty on the Company's ability to continue as a going concern.

**24. Supplementary Information Required by the Bureau of Internal Revenue (BIR)  
Based on Revenue Regulations No.15-2010**

In addition to the disclosures mandated under PFRS, and such other standards and/or conventions as may be adopted, companies are required by the BIR to provide in the notes to financial statements, certain supplementary information for the taxable year. The amounts relating to such supplementary information may not necessarily be the same with those amounts disclosed in the financial statements which were prepared in accordance with PFRS. The following is the supplementary information required for the taxable year ended December 31, 2019:

**a. VAT**

Output VAT	P972,183,691
<b>Account title used:</b>	
Basis of the Output VAT:	
Vatable sales	P8,069,341,355
Sale to government	32,189,403
Zero rated sales	50,565,310
Exempt sales	3,429,043
Total sales	P8,155,525,111
Input VAT	
Beginning of the year	P91,102,251
Current year transactions:	
a. Domestic purchases of goods other than capital goods	97,565,440
b. Importations other than capital goods	738,110,519
c. Others	54,742,122
Deductions from input tax	(1,367,889)
Other adjustments	1,751,063
Total allowable input VAT	P981,903,506
Total Vat payable (refundable) during the year	(P9,719,815)
Less: VAT payments during the year	(19,023,013)
Balance at the end of the year	P28,742,828

**b. Customs Duties and Tariff Fees:**

Landed cost of imports	P6,150,920,995
Customs duties paid or accrued	404,911,839
	P6,555,832,834

c. Excise Taxes

Imported excisable items:	
a. Spirits	P1,795,245,538
b. Wines	30,014,518
	<hr/>
	P1,825,260,056

d. Documentary Stamp Tax

<i>Documentary stamp tax paid during the year recognized under "Taxes and licenses" account under Operating Expenses</i>	
On loan instruments	P5,466,524
On others	1,095,106
	<hr/>
	P6,561,630

e. Withholding Taxes

Expanded withholding taxes	P18,141,365
Tax on compensation and benefits	1,334,245
	<hr/>
	P19,475,610

f. All Other Taxes (Local and National)

<i>Other taxes paid during the year recognized under "Taxes and licenses" account under Operating Expenses</i>	
License and permit fees	P20,249,272
Others	79,762
	<hr/>
	P20,329,034

g. Tax Cases and Assessment

On May 17, 2018, March 28, 2019 and June 19, 2019, the Company received Letters of Authority from the BIR to examine the Company's books of accounts and other accounting records for the periods January 1, 2016 to December 31, 2016, January 1, 2018 to December 31, 2018 and January 1, 2017 to December 31, 2017, respectively.

On September 16, 2019, the Company received Notice of Discrepancy for excise tax deficiency and its' related VAT for taxable years 2018 and 2017.

In August to October 2019, the Company paid the total deficiency taxes, including penalties and interest, in relation to these assessments amounting to P17,732,340.

As at December 31, 2019, the Company has no pending nor outstanding tax cases.

Information on tariff fees, paid or accrued, are not applicable since the Company did not enter into transaction which will result to payment or accrual of such taxes.





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6787 Ayala Avenue, Makati City  
Philippines 1226  
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Fax +63 (2) 8894 1985  
Website home.kpmg/ph  
Email ph-inquiry@kpmg.com

**REPORT OF INDEPENDENT AUDITORS  
TO ACCOMPANY SUPPLEMENTARY INFORMATION FOR FILING  
WITH THE SECURITIES AND EXCHANGE COMMISSION**

The Board of Directors and Stockholders  
**Montosco, Inc.**  
1501 Federal Tower, Dasmariñas Street  
Binondo, Manila

We have audited, in accordance with Philippine Standards on Auditing, the financial statements of Montosco, Inc. (the "Company"), a wholly-owned subsidiary of Cosco Capital, Inc., as at and for the years ended December 31, 2019 and 2018, on which we have rendered our report dated June 25, 2020.

Our audits were made for the purpose of forming an opinion on the basic financial statements of the Company taken as a whole. The supplementary information included in the following accompanying Schedule of Reconciliation of Retained Earnings Available for Dividend Declaration is the responsibility of the Company's management.

This supplementary information is presented for purposes of complying with the Revised Securities Regulation Code Rule 68 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

**R.G. MANABAT & CO.**

*Gregorio I. Sambrano, Jr.*  
GREGORIO I. SAMBRANO, JR.

Partner

CPA License No. 088825

SEC Accreditation No. 1548-AR-1, Group A, valid until December 17, 2021

Tax Identification No. 152-885-329

BIR Accreditation No. 08-001987-36-2018

Issued September 20, 2018; valid until September 19, 2021

PTR No. MKT 8116783

Issued January 2, 2020 at Makati City

June 25, 2020

Makati City, Metro Manila

MONTOSCO, INC.

SCHEDULE OF RECONCILIATION OF RETAINED EARNINGS  
AVAILABLE FOR DIVIDEND DECLARATION  
FOR THE YEAR ENDED DECEMBER 31, 2019

*(Figures based on functional  
currency audited financial  
statements)*

Unappropriated Retained Earnings, January 1, 2019	P643,053,859
Net income based on the face of audited financial statements	1,109,686,797
Less: Dividend declaration during the year	(50,000,000)
Unappropriated Retained Earnings, as adjusted, December 31, 2019	P1,702,740,656

# COVER SHEET

## For AUDITED FINANCIAL STATEMENTS

SEC Registration Number

C	S	2	0	0	8	1	2	5	2	8
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### COMPANY NAME

M	O	N	T	O	S	C	O	,	I	N	C	.																
(	A		W	h	o	l	i	y	-	o	w	n	e	d		S	u	b	s	i	d	i	a	r	y	o	f	
C	o	s	c	o		C	a	p	i	t	a	l	,		I	n	c	.	)									

### PRINCIPAL OFFICE ( No. / Street / Barangay / City / Town / Province)

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S	t	r	e	e	t	,		B	i	n	o	n	d	o	,		M	a	n	i	l	a							

Form Type

A A F S

Department requiring the report

Secondary License Type, If Applicable

### COMPANY INFORMATION

Company's email Address

www.coscocapital.com

Company's Telephone Number/s

(02) 242-0635

Mobile Number

No. of Stockholders

7

Annual Meeting (Month / Day)

June 30

Fiscal Year (Month / Day)

December 31

### CONTACT PERSON INFORMATION

The designated contact person **MUST** be an Officer of the Corporation

Name of Contact Person

Camille Clarisse P. Co

Email Address

Telephone Number/s

(02) 242-0635

Mobile Number

### CONTACT PERSON'S ADDRESS

1501 Federal Tower, Dasmarinas Street, Binondo, Manila

Note 1: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

Note 2: All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.



**MONTOSCO INC.**

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR FINANCIAL STATEMENTS**

The management of **MONTOSCO, INC.** (the "Company") is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2018 and 2017, in accordance with the prescribed financial reporting framework indicated therein, 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.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the financial statements and submits the same to the stockholders.

R.G. Manabat & Co., the independent auditor appointed by the stockholders, has audited the financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

  
**JANNELLE O. UY**  
President & Chairman of the Board

  
**MARIA CRISANTA A. RELOS**  
Treasurer

Signed this 11<sup>th</sup> day of April 2019



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The KPMG Center, 9/F  
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Philippines 1226  
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Fax +63 (2) 894 1985  
Internet www.kpmg.com.ph  
Email ph-inquiry@kpmg.com.ph

## REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders  
**Montosco, Inc.**  
1501 Federal Tower, Dasmariñas Street  
Binondo, Manila

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of Montosco, Inc. (the "Company"), a wholly-owned subsidiary of Cosco Capital, Inc., which comprise the statements of financial position as at December 31, 2018 and 2017, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended 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 *Auditors' 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 the 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.



*Responsibilities of Management and the Board of Directors for the Financial Statements*

Management is responsible for the preparation and fair presentation of the 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 its operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

*Auditors' Responsibilities for the Audit of the 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 auditors' 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, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSA, we exercise professional judgment and maintain professional skepticism throughout the audits. 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 auditors' 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 auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

**KPMG**

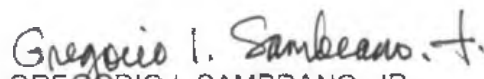
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors and management 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.

**Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010 of the Bureau of Internal Revenue**

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 22 to financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

**R.G. MANABAT & CO.**

  
GREGORIO I. SAMBRANO, JR.  
Partner

CPA License No. 088825

SEC Accreditation No. 1548-AR-1, Group A, valid until December 17, 2021

Tax Identification No. 152-885-329

BIR Accreditation No. 08-001987-36-2018

Issued September 20, 2018; valid until September 19, 2021

PTR No. MKT 7333635

Issued January 3, 2019 at Makati City

April 29, 2019  
Makati City, Metro Manila



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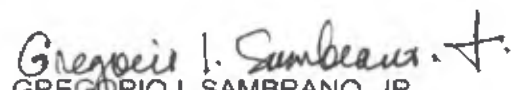
**REPORT OF INDEPENDENT AUDITORS  
TO ACCOMPANY FINANCIAL STATEMENTS FOR FILING  
WITH THE SECURITIES AND EXCHANGE COMMISSION**

The Board of Directors and Stockholders  
**Montosco, Inc.**  
1501 Federal Tower, Dasmarinas Street  
Binondo, Manila

We have audited the accompanying financial statements of Montosco, Inc. (the "Company"), a wholly-owned subsidiary of Cosco Capital, Inc., as at and for the year ended December 31, 2018, on which we have rendered our report dated April 29, 2019.

In compliance with Securities Regulation Code Rule 68, As Amended, we are stating that the said Company has only one (1) stockholder owning one hundred (100) or more shares.

**R.G. MANABAT & CO.**

  
GREGORIO I. SAMBRANO, JR.  
Partner

CPA License No. 088825  
SEC Accreditation No. 1548-AR-1, Group A, valid until December 17, 2021  
Tax Identification No. 152-885-329  
BIR Accreditation No. 08-001987-36-2018  
Issued September 20, 2018; valid until September 19, 2021  
PTR No. MKT 7333635  
Issued January 3, 2019 at Makati City

April 29, 2019  
Makati City, Metro Manila





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**REPORT OF INDEPENDENT AUDITORS  
TO ACCOMPANY SUPPLEMENTARY INFORMATION FOR FILING  
WITH THE SECURITIES AND EXCHANGE COMMISSION**

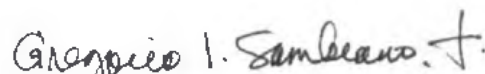
The Board of Directors and Stockholders  
**Montosco, Inc.**  
1501 Federal Tower, Dasmarinas Street  
Binondo, Manila

We have audited, in accordance with Philippine Standards on Auditing, the financial statements of Montosco, Inc. (the "Company"), a wholly-owned subsidiary of Cosco Capital, Inc., as at and for the year ended December 31, 2018, on which we have rendered our report dated April 29, 2019.

Our audit was made for the purpose of forming an opinion on the basic financial statements of the Company taken as a whole. The supplementary information in the accompanying Schedule of Philippine Financial Reporting Standards and Interpretations is the responsibility of the Company's management.

This supplementary information is presented for purposes of complying with the Securities Regulation Code Rule 68, As Amended, and is not a required part of the basic financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

**R.G. MANABAT & CO.**

  
GREGORIO I. SAMBRANO, JR.  
Partner

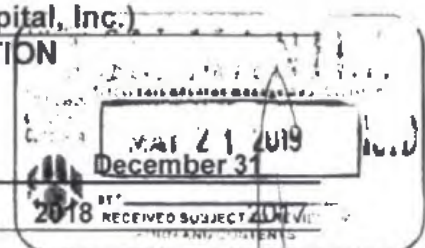
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PTR No. MKT 7333635  
Issued January 3, 2019 at Makati City

April 29, 2019  
Makati City, Metro Manila

**MONTOSCO, INC.**  
(A Wholly-owned Subsidiary of Cosco Capital, Inc.)

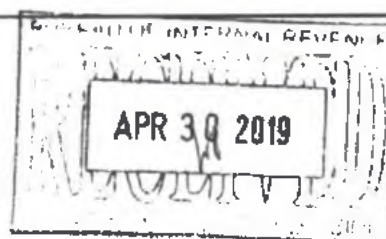
**FINANCIAL STATEMENTS**  
December 31, 2018 and 2017

**MONTOSCO, INC.**  
**(A Wholly-owned Subsidiary of Cosco Capital, Inc.)**  
**STATEMENTS OF FINANCIAL POSITION**



	Note		
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash	5, 19	P82,601,501	P263,925,726
Trade and other receivables	6, 19	848,714,407	1,053,351,711
Inventories	7, 15	2,541,957,090	1,262,556,953
Prepaid expenses and other current assets	8	740,298,607	427,302,948
<b>Total Current Assets</b>		<b>4,213,571,605</b>	<b>3,007,137,338</b>
<b>Noncurrent Assets</b>			
Property and equipment - net	9	9,170,411	5,096,872
Refundable deposits	10, 19	2,145,883	2,037,453
<b>Total Noncurrent Assets</b>		<b>11,316,294</b>	<b>7,134,325</b>
		<b>P4,224,887,899</b>	<b>P3,014,271,663</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Trade and other payables	11, 19	P582,320,705	P183,718,013
Advances from a stockholder	13, 19	659,500,000	-
Notes payable	12, 19	353,000,000	700,000,000
Dividends payable	13, 14, 19	200,000,000	100,000,000
Income tax payable		84,864,439	60,764,797
Advances from Parent Company	13, 19	-	234,000,000
<b>Total Current Liabilities</b>		<b>1,879,685,144</b>	<b>1,278,482,810</b>
<b>Noncurrent Liability</b>			
Retirement benefits liability	17	1,112,907	1,550,561
<b>Total Liabilities</b>		<b>1,880,798,051</b>	<b>1,280,033,371</b>
<b>Equity</b>			
Capital stock	14	750,000,000	750,000,000
Retained earnings			
Unappropriated	14	643,529,993	984,279,425
Appropriated	14	950,000,000	-
Accumulated remeasurements on retirement benefits		559,855	(41,133)
<b>Total Equity</b>		<b>2,344,089,848</b>	<b>1,734,238,292</b>
		<b>P4,224,887,899</b>	<b>P3,014,271,663</b>

See Notes to Financial Statements.



**MONTOSCO, INC.**  
**(A Wholly-owned Subsidiary of Cosco Capital, Inc.)**  
**STATEMENTS OF COMPREHENSIVE INCOME**

		Years Ended December 31	
	Note	2018	2017
<b>NET SALES</b>	13	P5,291,847,624	P3,647,917,229
<b>COST OF GOODS SOLD</b>	15	4,019,765,423	2,767,822,893
<b>GROSS PROFIT</b>		1,272,082,201	880,094,336
<b>OPERATING EXPENSES</b>			
Advertisement		190,123,388	111,354,403
Distribution costs		76,069,173	62,499,779
Outside services		44,034,167	28,179,248
Salaries and other employee benefits		21,587,006	18,213,055
Rent	16	11,690,079	15,354,658
Taxes and licenses		10,699,402	17,140,918
Utilities and communication		7,059,934	3,239,763
Insurance		6,163,715	7,034,651
Transportation and travel		6,110,201	5,213,951
Depreciation and amortization	9	2,730,823	2,793,476
Representation and entertainment		1,514,791	1,397,385
Miscellaneous		14,575,670	8,691,768
		<b>392,358,349</b>	<b>281,113,055</b>
<b>INCOME FROM OPERATIONS</b>		<b>879,723,852</b>	<b>598,981,281</b>
<b>OTHER INCOME - Net</b>			
Commission income		53,674,117	68,593,291
Foreign exchange gain (loss) - net		32,586,368	(19,031,679)
Interest expense	12, 13	(13,445,517)	(7,749,094)
Interest income	5	2,397,647	781,573
		<b>75,212,615</b>	<b>42,594,091</b>
<b>INCOME BEFORE INCOME TAX</b>		<b>954,936,467</b>	<b>641,575,372</b>
<b>PROVISION FOR INCOME TAX</b>	18	<b>245,685,899</b>	<b>170,808,156</b>
<b>NET INCOME</b>		<b>709,250,568</b>	<b>470,767,216</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
Item that will not be reclassified to profit or loss in subsequent periods			
Remeasurement gain on retirement benefits	17	600,988	-
Income tax effect		-	(12,340)
		<b>600,988</b>	<b>(12,340)</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>P709,851,556</b>	<b>P470,754,876</b>

See Notes to Financial Statements.

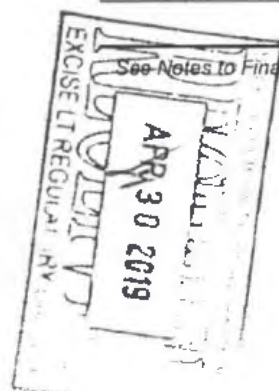


**MONTOSCO, INC.**  
**(A Wholly-owned Subsidiary of Cosco Capital, Inc.)**  
**STATEMENTS OF CHANGES IN EQUITY**

Years Ended December 31

	Capital Stock (Note 14)	Stock Dividends Distributable (Note 14)	Retained Earnings		Accumulated Remeasurements on Retirement Benefits	Total
			Unappropriated (Note 14)	Appropriated (Note 14)		
Balances as at December 31, 2016	P210,000,000	P540,000,000	P613,512,209	P -	(P28,793)	P1,363,483,416
Net income for the year	-	-	470,767,216	-	-	470,767,216
Other comprehensive loss for the year	-	-	-	-	(12,340)	(12,340)
Stock dividends issuances	540,000,000	(540,000,000)	-	-	-	-
Cash dividends declared during the year	-	-	(100,000,000)	-	-	(100,000,000)
Balances as at December 31, 2017	750,000,000	-	984,279,425	-	(41,133)	1,734,238,292
Net income for the year	-	-	709,250,568	-	-	709,250,568
Other comprehensive income for the year	-	-	-	-	600,988	600,988
Cash dividends declared during the year	-	-	(100,000,000)	-	-	(100,000,000)
Appropriations during the year	-	-	(950,000,000)	950,000,000	-	-
Balances as at December 31, 2018	P750,000,000	P -	P643,529,993	P950,000,000	P559,855	P2,344,089,848

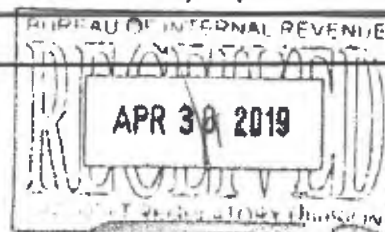
See Notes to Financial Statements.



**MONTOSCO, INC.**  
**(A Wholly-owned Subsidiary of Cosco Capital, Inc.)**  
**STATEMENTS OF CASH FLOWS**

		Years Ended December 31	
	Note	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax		P954,936,467	P641,575,372
Adjustments for:			
Interest expense	12, 13, 21	13,445,517	7,749,094
Unrealized foreign exchange loss - net		6,578,977	3,047,788
Depreciation and amortization	9	2,730,823	2,793,476
Interest income	5	(2,397,647)	(781,573)
Retirement benefits costs	17	283,334	345,565
Operating income before working capital changes		975,577,471	654,729,722
Decrease (increase) in:			
Trade and other receivables		203,575,979	(202,602,216)
Inventories		(1,279,400,137)	212,561,049
Prepaid expenses and other current assets		(312,995,659)	(337,927,097)
Refundable deposits		(108,430)	1,197,276
Increase (decrease) in trade and other payables		389,906,225	(425,456,548)
Cash used in operations		(23,444,551)	(97,497,814)
Income taxes paid		(221,586,257)	(206,574,950)
Interest received	5	2,397,647	781,573
Retirement benefits paid	17	(120,000)	-
Net cash used in operating activities		(242,753,161)	(303,291,191)
<b>CASH FLOWS FROM AN INVESTING ACTIVITY</b>			
Additions to property and equipment	9	(6,804,362)	(2,402,268)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Payments of:	21		
Advances from Parent Company	13	(234,000,000)	(290,000,000)
Notes payable		(700,000,000)	(175,000,000)
Interest		(10,251,527)	(6,808,362)
Proceeds from availment of:			
Advances from a stockholder	13	659,500,000	-
Notes payable		353,000,000	700,000,000
Net cash from financing activities		68,248,473	228,191,638
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>			
		(15,175)	8,007
<b>NET DECREASE IN CASH</b>		(181,324,225)	(77,493,814)
<b>CASH AT BEGINNING OF YEAR</b>		263,925,726	341,419,540
<b>CASH AT END OF YEAR</b>	5	P82,601,501	P263,925,726

See Notes to Financial Statements.





**MONTOSCO, INC.**  
**(A Wholly-owned Subsidiary of Cosco Capital, Inc.)**

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**NOTES TO FINANCIAL STATEMENTS**

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**1. Reporting Entity**

Montosco, Inc. (the "Company") was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on August 13, 2008. The principal activity of the Company is to engage in the business of trading consumer goods on wholesale basis.

The Company is a wholly-owned subsidiary of Cosco Capital, Inc. (the "Parent Company"), a company incorporated in the Philippines. Cosco's shares of stock are listed for trading at the Philippine Stock Exchange (PSE).

The Company's registered office address is at the 1501 Federal Tower, Dasmariñas Street, Binondo, Manila.

**2. Basis of Preparation**

Statement of Compliance

The financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). PFRS which are issued by the Philippine Financial Reporting Standards Council (FRSC), consist of PFRS, Philippine Accounting Standards (PAS), and Philippine Interpretations based on the International Financial Reporting Interpretations Committee (IFRIC) interpretations.

Basis of Measurement

The financial statements have been prepared on the historical cost basis of accounting except for the retirement benefits liability which is measured at the present value of the defined benefits obligation.

Functional and Presentation Currency

The financial statements are measured using the currency of the primary economic environment in which the Company operates. The financial statements are presented in Philippine peso, which is also the Company's functional currency. All amounts are rounded to the nearest peso, except when otherwise indicated.

Authorization for Issuance of the Financial Statements

The accompanying financial statements of the Company as at and for the years ended December 31, 2018 and 2017 were approved and authorized for issue by the Board of Directors (BOD) on April 11, 2019.

### 3. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in these financial statements, except for the changes in accounting policies as explained below.

#### Adoption of New or Revised Standards and Interpretations

The Company has adopted the following new or revised standards and interpretations starting January 1, 2018 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption of these standards did not have any significant impact on the Company's financial statements. These standards are as follows:

- PFRS 9, *Financial Instruments (2014)* replaces PAS 39, *Financial Instruments: Recognition and Measurement* and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurements requirements (in 2009 and 2010) and a new hedge accounting model (in 2013).

PFRS 9 includes revised guidance on the classification and measurement of financial assets that reflects the business model in which assets are managed and their cash flow characteristics, including a new forward-looking expected credit loss model for calculating impairment, and guidance on own credit risk on financial liabilities measured at fair value. PFRS 9 incorporates new hedge accounting requirements that represent a major overhaul of hedge accounting and introduces significant improvements by aligning the accounting more closely with risk management.

#### *Classification and Measurement of Financial Assets and Financial Liabilities*

PFRS 9 contains three principal classification categories for financial assets: (1) measured at amortized cost; (2) measured at fair value through other comprehensive income (FVOCI); and (3) measured at fair value through profit or loss (FVTPL). The classification of financial assets under PFRS 9 is generally based on the business model in which the financial asset is managed and its contractual cash flow characteristics. PFRS 9 eliminates the previous PAS 39 categories of held to maturity (HTM) investments, loans and receivables and available for sale (AFS) financial assets.

The following table shows the original measurement categories under PAS 39 and the new measurement categories under PFRS 9 for each class of the Company's financial assets as at January 1, 2018.

Financial Assets	Original Classification under PAS 39	New Classification under PFRS 9	Original Carrying Amount under PAS 39	New Carrying Amount under PFRS 9
Cash in banks	Loans and receivables	Financial Assets at Amortized cost	P263,509,726	P263,509,726
Trade and other receivables	Loans and receivables	Financial Assets at Amortized cost	1,053,351,711	1,053,351,711
Refundable deposits	Loans and receivables	Financial Assets at Amortized cost	2,037,453	2,037,453
<b>Total Financial Assets</b>			<b>P1,318,898,890</b>	<b>P1,318,898,890</b>

Financial assets that were previously classified as loans and receivables were all classified at amortized cost as the Company intends to hold these assets to maturity to collect contractual cash flows which consist solely of payments of principal and interest on the principal amount outstanding.



PFRS 9 largely retains the existing requirements in PAS 39 for the classification and measurement of financial liabilities. The adoption of PFRS 9 has not had a significant effect on the Company's accounting policies related to financial liabilities.

There were no financial assets or financial liabilities which the Company has previously designated as at FVTPL under PAS 39 that were subject to reclassification or which the Company has elected to reclassify upon the application of PFRS 9. There were no financial assets or financial liabilities which the Company has elected to designate as at FVTPL at the date of initial application of PFRS 9.

#### *Impairment of Financial Assets*

PFRS 9 replaces the "incurred loss" model in PAS 39 with an "expected credit loss" (ECL) model in relation to the impairment of financial assets. The new impairment model applies to financial assets measured at amortized cost. Under PFRS 9, credit losses are recognized earlier than under PAS 39. For assets in the scope of PFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Company has assessed that the impact of providing ECL is immaterial. Thus, the Company has determined that the application of PFRS 9's impairment requirements as at January 1, 2018 did not result in an additional allowance for impairment.

#### *General Hedging Accounting*

The adoption of PFRS 9 with respect to hedging accounting has not had an impact on the Company's accounting policies since the Company has no hedging transactions.

The Company has used an exemption not to restate comparative information. The classification and measurement requirements previously applied in accordance with PAS 39 and disclosure requirements in PFRS 7 are retained for the comparative period. Accordingly, the information presented for the comparative period does not reflect the requirements of PFRS 9 and the consequential amendments to PFRS 7.

- PFRS 15, *Revenue from Contracts with Customers*, replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue*, IFRIC-13, *Customer Loyalty Programmes*, IFRIC-18 *Transfer of Assets from Customers*, and SIC-31, *Revenue - Barter Transactions Involving Advertising Services*. The new standard introduces a new revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) a company transfers control of goods or services to a customer at the amount to which the company expects to be entitled.

PFRS 15 requires a contract with a customer to be legally enforceable and to meet certain criteria to be within the scope of the standard and for the general model to apply. It introduces detailed guidance on identifying performance obligations which requires entities to determine whether promised goods or services are distinct. It also introduces detailed guidance on determining transaction price, including guidance on variable consideration and consideration payable to customers. The transaction price will then be generally allocated to each performance obligation in proportion to its stand-alone selling price.

Depending on whether certain criteria are met, revenue is recognized over time in a manner that best reflects the Company's performance, or at a point in time, when control of the goods or services is transferred to the customer.

The standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other PFRS. It also does not apply if two companies in the same line of business exchange non-monetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of other PFRS, then the guidance on separation and measurement contained in other PFRS takes precedence.

Due to the transition method (cumulative effect method) chosen in applying PFRS 15, comparative information has not been restated to reflect the new requirements. Accordingly, the information presented for 2017 has not been restated - i.e. it is presented as previously reported under PAS 18 and related interpretations. Additionally, the disclosure requirements in PFRS 15 have not generally been applied to comparative information.

For the year ended December 31, 2018, the Company carried out a detailed review of the revenue recognition criteria applying the requirements of PFRS 15 to ensure that the same principles were being applied consistently. This review in particular examined the timing of revenue recognition and variable consideration such as discounts, rebates, listing and slotting fees/display allowances and certain payments to customers after the initial sale of goods.

#### *Timing of Revenue Recognition*

The Company concluded that PFRS 15 will not impact the timing of revenue recognition as revenue from sale of goods is currently recognized when the goods are delivered to the customers' warehouse, which is taken to be point in time at which control over the goods is transferred.

#### *Variable Consideration*

The revised accounting policy establishes that revenue is recognized to the extent that it is highly probable that a reversal in the amount of revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently settled. This means that discounts, allowances, listing and slotting fees/display allowances are deducted from revenue unless it is highly probable that they will not be incurred. Based on management's assessment, the application of PFRS 15 did not impact the current classification of these variable consideration, i.e. discounts, rebates, listing and slotting fees/display allowances and certain payments to customers after the initial sale of goods as reduction to revenue. Variable considerations are measured based on the most likely amount based on the agreement with customers.

The new standard did not have a material impact on the financial statements, including the Company's accounting policies with respect to its revenue streams.

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration* clarifies that the transaction date to be used for translation for foreign currency transactions involving an advance payment or receipt is the date on which the entity initially recognizes the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. The interpretation applies when an entity pays or receives consideration in a foreign currency and recognizes a non-monetary asset or liability before recognizing the related item.

The Company makes foreign currency sales and purchases. The Company's accounting policy is aligned with the interpretation.

## Financial Instruments

### *Date of Recognition*

The Company recognizes a financial asset or a financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases and sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

### *Initial Recognition of Financial Instruments*

Financial instruments are recognized initially at fair value. The initial measurement of financial instruments, except for those financial assets and financial liabilities at FVTPL, includes transaction costs.

### *Classification and Measurement of Financial Instruments - Policy Applicable from January 1, 2018*

On initial recognition, the Company classifies its financial assets in the following categories: measured at amortized cost, financial assets at FVTPL and financial assets at FVOCI. The classification depends on the business model for managing the financial assets and the contractual terms of its cash flows.

The Company classifies its financial liabilities as either financial liabilities at amortized cost or financial liabilities at FVTPL. The Company classifies all financial liabilities at amortized cost, except for:

- (a) financial liabilities designated by the Company at initial recognition as at FVTPL, when doing so results in more relevant information.
- (b) financial liabilities that arise when the transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.
- (c) contingent consideration recognized by the Company in a business combination which shall subsequently be measured at fair value with changes recognized in profit or loss.
- (d) financial guarantee contracts and commitments to provide a loan at a below market interest rate which are initially measured at fair value and subsequently at higher of amortized amount and amount of loss allowance.

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

### *Business Model Assessment*

The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

- how managers of the business are compensated - e.g., whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

*Solely Payments of Principal and Interest Assessment*

Principal is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers contingent events that would change the amount or timing of cash flows, terms that may adjust the contractual coupon rate, including variable-rate features, prepayment and extension features, and terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse features).

The Company has no financial assets classified as financial assets at FVTPL and FVOCI as at December 31, 2018.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

*Financial Assets at Amortized Cost*

A financial asset is measured at amortized cost if it is held within a business model whose objective is to hold assets to collect contractual cash flows, its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, and it is not designated as at FVTPL.

Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

Included in this category are the Company's cash in banks, trade and other receivables and refundable deposits.

*Financial Liabilities at Amortized Cost*

This category pertains to financial liabilities that are not held for trading or designated as at FVTPL upon inception of the liability. These include liabilities arising from operations or borrowings. The financial liabilities are recognized initially at fair value and subsequently carried at amortized cost, taking into account the impact of applying the effective interest rate method of amortization for any related premium, discount and any directly attributable transaction costs. These financial liabilities are included in current liabilities if maturity is within twelve months from reporting date. Otherwise, these are classified as noncurrent liabilities.

This category includes the Company's trade and other payables [excluding statutory obligations and output Value-added Tax (VAT)], notes payable, advances from a stockholder, and dividends payable.



*Classification and Measurement of Financial Instruments - Policy Applicable before January 1, 2018*

On initial recognition, the Company classifies its financial assets in the following categories: financial assets at FVTPL, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. Financial liabilities on the other hand, are classified into the following categories: financial liabilities at FVTPL and other financial liabilities. Management determines the classification of its financial assets and financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at each reporting date.

Financial instruments are classified as liability 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 reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

As at December 31, 2017, the Company's financial assets and financial liabilities consist of loans and receivables and other financial liabilities.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivables. After initial measurement, loans and receivables are subsequently carried at cost or amortized cost using the effective interest method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process. Loans and receivables are classified as current assets if maturity is within 12 months from the balance sheet date or the normal operating cycle, whichever is longer. Otherwise, these are classified as noncurrent assets.

As at December 31, 2017, the Company's loans and receivables include cash in banks, trade and other receivables, and refundable deposits.

*Other financial liabilities*

This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. These include liabilities arising from operations or borrowings (e.g., payables, accruals). Other financial liabilities are initially recognized at fair value, plus directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the amortization process. Financial liabilities are classified as current, except for maturities greater than twelve months after the reporting date. These are classified as noncurrent liabilities.

As at December 31, 2017, the Company's other financial liabilities include trade and other payables (excluding statutory obligations and output VAT), notes payable, advances from Parent Company, and dividends payable.

### Impairment of Financial Assets.

*Policy Applicable from January 1, 2018*

PFRS 9 replaces the "incurred loss" model in PAS 39 with an "expected credit loss" ECL model. The new impairment model applies to financial assets measured at amortized cost. Under PFRS 9, credit losses are recognized earlier than under PAS 39.

The Company measures loss allowances at an amount equal to lifetime ECLs, except for debt securities that are determined to have low credit risk at the reporting date and other debt securities and bank balances for which credit risk has not increased significantly since initial recognition, which are measured at 12-month ECLs.

Loss allowances for trade and other receivables is always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due. The Company considers a financial asset to be in default when the customer is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security (if any is held) or the financial asset is more than 90 days past due on any material credit obligation to the Company.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. The 12-month ECLs are a portion of lifetime ECLs that represents the ECLs resulting from default events on the financial instrument that are possible within 12 months after the reporting date or a shorter period if the expected life of the instrument is less than 12 months.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

ECLs are probability weighted-estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Company assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes significant financial difficulty of the borrower or issuer, a breach of contract such as default, the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise, when it is probable that the borrower will enter bankruptcy or other financial reorganization, or the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

Financial assets are written off when there is no reasonable expectation of recovery. The Company categorizes financial assets recorded at amortized cost for write off when a debtor fails to make payments or when it is probable that the receivable will not be collected. Where amortized cost financial assets have been written off, the Company continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognized in profit or loss.

*Policy Applicable before January 1, 2018*

The Company assesses at each reporting date whether a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the contracted parties or group of contracted parties is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*Loans and Receivables*

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant or collectively for financial assets that are not individually significant. If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of loss is measured as a 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 shall be reduced through the use of an allowance account, and the amount of the loss shall be recognized in profit or loss.

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 group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

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 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 amount of the asset does not exceed its amortized cost at the reversal date.

## Derecognition of Financial Assets and Financial Liabilities

### *Financial Assets*

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

- the rights to receive cash flows from the asset have expired;
- 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 rewards of the asset; or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards 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 is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

### *Financial Liabilities*

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. The difference in the respective carrying amounts is recognized in profit or loss.

## Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statements 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. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statements of financial position.

## Fair Value Measurement

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 measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to the Company.

The fair value of an asset or a liability is measured using the assumptions that the market participants would use when pricing the asset or liability, assuming that the market participants act in their economic best interest.



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 markets 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 reassessing 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.

As at December 31, 2018 and 2017, no financial asset or financial liability was recognized at fair value. The Company has no other assets or liabilities with recurring and non-recurring fair value measurements.

#### Inventories

Inventories, which consist of spirits, wines and water, are valued at the lower of cost and net realizable value (NRV). Cost is comprised of purchase price, expenditure incurred in acquiring the inventories and other costs incurred in bringing them to their present location and condition. Cost is determined using the first-in, first-out method.

NRV represents the estimated selling price less costs to be incurred in marketing, selling and distribution. In determining the NRV, the Company considers any adjustment necessary to write-down inventories to NRV for slow-moving and near expiry products based on physical inspection and management evaluation.

#### Prepaid Expenses and Other Current Assets

##### *Prepaid Expenses and Advances*

Prepaid expenses and advances represent expenses not yet incurred but already paid in cash. Prepaid expenses and advances are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are charged to profit or loss as these are consumed in operations or expire with the passage of time.

Prepaid expenses and advances are classified in the statements of financial position as current asset when the cost of goods or services related to the prepayment are expected to be incurred within one (1) year from the reporting date. Otherwise, prepayments are classified as noncurrent assets.

#### Value-added Tax

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

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of tax included.

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of "Prepaid expenses and other current assets" account or "Trade and other payables" account in the statements of financial position.

#### Refundable Deposits

Refundable deposits are cash paid for the lease agreements covering the office spaces and warehouse which are expected to be refunded upon the termination of the lease. These are carried at net realizable value and classified as current for leases which will expire within 12 months from the reporting period otherwise, these will be classified as noncurrent.

#### Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization and any impairment in value. The initial cost of items of property and equipment consists of its purchase price, including import duties and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to profit or loss in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of the item of property and equipment.

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

	Number of Years
Transportation and delivery equipment	5
Leasehold improvements	3 or lease term, whichever is shorter
Furniture and fixtures	2
Office equipment	2

Depreciation and amortization of an item of property and equipment begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation or amortization ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, and the date the asset is derecognized.

The estimated useful lives and depreciation and amortization method are reviewed periodically to ensure that the periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation is recognized in the profit or loss. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and any impairment in value are removed from the accounts and any resulting gain or loss is recognized in profit or loss.

#### Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. The capitalization of borrowing costs: (i) commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred; (ii) is suspended during the extended periods in which active development, improvement and construction of the assets are interrupted; and (iii) ceases when substantially all the activities necessary to prepare the assets are completed. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds.

Other borrowing costs are recognized as expense in the period in which they are incurred.

#### Impairment of Noncurrent Nonfinancial Assets

The Company assesses, at end of each reporting period, whether there is indication that its noncurrent nonfinancial assets which consist of property and equipment may be impaired. If any such indication exists and where the carrying amount exceeds the estimated recoverable amount, the assets or the cash generating unit (CGU) are written down to their recoverable amounts. The recoverable amount of the nonfinancial assets is the greater of fair value less cost to sell and value-in-use. The fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's length transaction. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs. Impairment losses, if any, are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation and amortization charge are adjusted in future periods to allocate the asset's revised carrying amount on a systemic basis over its remaining useful life.

#### Capital Stock

Ordinary or Common shares are classified as equity. The proceeds from the issuance of ordinary or common shares are presented in equity as capital stock to the extent of the par value of the issued and outstanding shares and any excess of the proceeds over the par value of the shares issued, less any incremental costs directly attributable to the issuance, net of tax, is presented in equity as additional paid-in capital.

### Retained Earnings

Retained earnings represent the cumulative balance of periodic net income or loss, dividend contributions, correction of prior year errors, effect of changes in accounting policy and other capital adjustments.

Unappropriated retained earnings represent that portion which is free and can be declared as dividends to stockholders. Appropriated retained earnings represent that portion which has been restricted and, therefore, not available for dividend declaration.

### Dividends on Common Shares

Cash and property dividends on common shares are recognized as liability and deducted from equity when approved by the BOD of the Company. Stock dividend declared but not yet issued is presented as "Capital stock dividend distributable" in the statement of financial position. When the stock dividends are declared, the amount of stock dividends are treated as transfers from retained earnings to common shares.

Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date.

### Revenue Recognition

Prior to January 1, 2018, under PAS 18, *Revenue*, revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the amount of revenue can be reliably measured.

Upon adoption of PFRS 15 beginning January 1, 2018, revenue from contracts with customers is recognized upon transfer of goods to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods.

The following specific recognition criteria must also be met before revenue is recognized:

#### *Sale of Goods*

Revenue is recognized at the point in time when control of the asset is transferred to the customer, generally upon delivery. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized. Revenue is recognized net of variable considerations, i.e. discounts, rebates, listing and slotting fees/display allowances and certain payments to customers after the initial sale of goods as reduction to revenue.

#### *Commission Income*

Commission is recognized at a point in time when the related indirect sale of goods have been received and accepted by the buyer at their premises.

#### *Interest Income*

Interest income is recognized in profit or loss as it accrues, taking into account the effective yield on the asset.

### Cost and Expense Recognition

#### *Cost of Goods Sold*

Cost of goods sold is recognized when goods are shipped to the buyer. Expenses are recognized upon utilization of services or at the date they are incurred.



#### *Operating Expenses*

Operating expenses are costs incurred to sell or distribute the goods and administering the business. It includes documentation processing and delivery, among others. Operating expenses are expensed as incurred.

#### Other Comprehensive Income

Other comprehensive income 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 year in accordance with PFRS.

#### Employee Benefits

##### *Short-term Employee Benefits*

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of the past service provided by the employee and the obligation can be estimated reliably.

##### *Retirement Benefits Liability and Costs*

The Company has an unfunded, noncontributory defined benefits retirement plan covering substantially all permanent, regular and full-time employees. The Company's obligation in respect of the defined benefits is calculated by estimating the amount of the future benefits that employees have earned in the current and prior period and discounting that amount.

The calculation of defined benefits obligations is performed on a periodic basis by a qualified actuary using the projected unit credit method.

Remeasurements of the retirement benefits liability, which comprise of actuarial gains and losses, are recognized immediately in other comprehensive income. The Company determines the interest expense on the retirement benefits liability for the period by applying the discount rate used to measure the retirement benefits liability at the beginning of the annual period to the then retirement benefits liability, taking into account any changes in the retirement benefits liability during the period as a result of benefit payments, if any. Interest expense and other expenses related to defined benefits plans are recognized in profit or loss.

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

#### Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after the inception of 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 an extension is 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 specific asset; or
- (d) there is a substantial change to the asset.

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

#### *Company as Lessee*

Leases where the lessors retain substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in profit or loss on a straight-line basis over the lease term. Associated costs such as maintenance and insurance are expensed as incurred.

#### Income Taxes

Provision for income tax is composed of current income tax and deferred income tax. Provision for income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income, in which case, it is recognized directly in equity or in other comprehensive income.

#### *Current Income Tax*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used as basis to compute the amount are those that have been enacted or substantively enacted at the reporting date.

#### *Deferred Income Tax*

Deferred income tax is provided, using the balance sheet liability method, 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 income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that sufficient future taxable profits will allow the deferred income tax asset to be recovered.

Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

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

#### Related Party Transactions and Relationships

Related party relationships exist when the party has the ability to control, directly or indirectly, through one or more intermediaries, or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting entity and its key management personnel, directors or stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely to the legal form. Related parties may be individual or corporate entities.

#### Foreign Currency Denominated Transactions and Translation

Transactions in foreign currencies are recorded using the functional currency exchange rate at the date of transaction. Outstanding monetary assets and monetary liabilities denominated in foreign currencies are translated using the closing exchange rate at the reporting date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

#### Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of the provision to be reimbursed, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss, net of reimbursement. If the effect of the time value of money is material, provisions are discounted using the current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

#### Contingencies

Contingent liabilities are not recognized in the financial statements but are disclosed in the notes to financial statements unless the outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but 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 position at the reporting date (adjusting events) are reflected in the financial statements. Events after the reporting date that are not adjusting events are disclosed in the notes to financial statements when material.

#### Standards Issued But Not Yet Adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2018. However, the Company has not applied the following relevant and applicable new or amended standards and interpretations in preparing these financial statements. Unless otherwise stated, none of these are expected to have a significant effect on the Company's financial statements.

The Company plans to adopt the following new or amended standards and interpretations on the respective effective dates, as applicable.

*Effective January 1, 2019*

- PFRS 16, *Leases* supersedes PAS 17, *Leases* and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements.

Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were also introduced.

Early adoption is permitted. The Company has completed an initial assessment of the potential impact on its financial statements. The actual impact of applying PFRS 16 on the financial statements in the period of initial application will depend on future economic conditions and the Company's latest assessment of whether it will exercise any lease renewal options.

So far, the most significant impact identified is that the Company will recognize new assets and liabilities for the operating lease of its office space and warehouse.

In addition, the nature of expenses related to this lease will now change as PFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use of assets and interest expense on lease liabilities.

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments* clarifies how to apply the recognition and measurement requirements in PAS 12, *Income Taxes* when there is uncertainty over income tax treatments. Under the interpretation, whether the amounts recorded in the financial statements will differ to that in the tax return, and whether the uncertainty is disclosed or reflected in the measurement, depends on whether it is probable that the tax authority will accept the Company's chosen tax treatment. If it is not probable that the tax authority will accept the Company's chosen tax treatment, the uncertainty is reflected using the measure that provides the better prediction of the resolution of the uncertainty - either the most likely amount or the expected value.

The interpretation also requires the reassessment of judgments and estimates applied if facts and circumstances change - e.g. as a result of examination or action by tax authorities, following changes in tax rules or when a tax authority's right to challenge a treatment expires.

Early adoption is permitted. The interpretation can be initially applied retrospectively applying PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* if possible without the use of hindsight, or retrospectively with the cumulative effect recognized at the date of initial application without restating comparative information.



The Company is currently assessing the potential impact of adopting this interpretation.

- PAS 19, *Employee Benefits - Plan Amendment, Curtailment or Settlement (Amendments)* clarify that on amendment, curtailment or settlement of a defined benefit plan, an entity now uses updated actuarial assumptions to determine its current service cost and net interest for the period. The effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income.

The amendments apply for plan amendments, curtailments or settlements that occur on or after the beginning of the first annual reporting period that begins on or after January 1, 2019. Earlier application is permitted.

#### *Effective January 1, 2020*

- *Amendments to References to Conceptual Framework in PFRS Standards* sets out amendments to PFRS Standards, their accompanying documents and PFRS practice statements to reflect the issuance of the revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework). The 2018 Conceptual Framework includes a new chapter on measurement, guidance on reporting financial performance, improved definitions of an asset and a liability, and guidance supporting these definitions, and clarifications in important areas, such as the roles of stewardships, prudence and measurement uncertainty in financial reporting.

Some Standards, their accompanying documents and PFRS practice statements contain references to, or quotations from, the International Accounting Standards Committee (IASB)'s Framework for the Preparation and Presentation of Financial Statements adopted by the International Accounting Standards Board (IASB) in 2001 or the Conceptual Framework for Financial Reporting issued in 2010. The amendments update some of those references and quotations so that they refer to the 2018 Conceptual Framework, and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

- PAS 1, *Presentation of Financial Statements* and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Material (Amendments)* refine the definition of material. The amended definition of material states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify the definition of material and its application by:
  - (a) raising the threshold at which information becomes material by replacing the term "could influence" with "could reasonably be expected to influence";
  - (b) including the concept of "obscuring information" alongside the concept of "omitting" and "misstating" information in the definition;
  - (c) clarifying that the users to which the definition refers are the primary users of general purpose financial statements referred to in the Conceptual Framework;
  - (d) clarifying the explanatory paragraphs accompany the definition; and
  - (e) aligning the wording of the definition of material across PFRS Standards and other publications.

The amendments are expected to help entities make better materiality judgments without substantively changing existing requirements.

The amendments apply prospectively. Earlier application is permitted.

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#### **4. Management's Use of Judgments, Accounting Estimates and Assumptions**

The preparation of the financial statements in accordance with PFRS requires management to exercise judgments, make accounting estimates and use assumptions that affect reported amounts of assets, liabilities, income and expenses and related disclosures. Future events may occur which will cause the assumptions used in arriving at the accounting estimates to change. The effects of any change in accounting estimates are reflected in the financial statements as they become reasonably determinable.

Accounting judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

##### Judgments

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

##### *Determination of the Company's Functional Currency*

The Company considers factors, including but not limited to, the currency that mainly influences sales prices of its goods and the currency in which receipts from operating activities are usually retained. Based on the economic substance of the underlying circumstances relevant to the Company, the functional currency has been determined to be the Philippine peso. It is the currency that mainly influences the Company's operations.

##### *Determination on whether an Agreement Contains a Lease*

The Company uses its judgment in determining whether an arrangement contains a lease, based on the substance of the arrangement at the inception date, and makes assessment on whether the arrangement is dependent on the use of the specific asset or assets, the arrangement conveys a right to use the asset and the arrangement transfers substantially all the risk and rewards incidental to ownership to the Company.

##### *Recognition of Revenue*

The Company uses its judgment in determining the timing of the transfer of control on the goods that it delivered and services that it rendered. The Company determined that the control is transferred for sale of goods when the Company has transferred physical possession of the goods and obtained the right to payment for the goods which is upon the customer's acceptance of the goods at the customer's warehouse. Further, for commission income, control over the goods for the indirect sale is transferred upon buyer's acceptance of the goods at their premises.

#### Accounting Estimates and Assumptions

The key estimates and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below:

##### *Allowance for Impairment Losses on Trade and Other Receivables and Refundable Deposits*

The Company uses the expected credit loss model in estimating the level of allowance which includes forecasts of future events and conditions. A credit loss is measured as the present value of all cash shortfalls (the difference between the cash flows that the Company expects to receive). The model represents a probability-weighted estimate of the difference over the remaining life of the receivables. The maturity of the Company's receivables is less than one year so the lifetime expected credit loss and the 12-month expected credit losses are similar. In addition, management assessed that the credit risk for its trade and other receivables and refundable deposits as at the reporting date are low, therefore the Company did not have to assess whether a significant increase in credit risk has occurred. An increase in the allowance for impairment losses would increase the recorded operating expenses and decrease current assets.

No impairment losses were recognized in 2018 and 2017 in respect of the Company's financial assets because management assessed that these are fully recoverable.

The combined carrying amounts of the Company's trade and other receivables and refundable deposits are P850,860,290 and P1,055,389,164 as at December 31, 2018 and 2017, respectively (see Note 19).

##### *Determination of NRV of Inventories*

The Company's estimates of the NRV of inventories are based on the most reliable evidence available at the time the estimates are made, of the amount that the inventories are expected to be realized. These estimates consider the inventory obsolescence, physical deterioration, fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. A new assessment is made at NRV in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is a clear evidence of an increase in NRV because of changes in economic circumstances, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised NRV.

The carrying amounts of inventories as at December 31, 2018 and 2017 are P2,541,957,090 and P1,262,556,953, respectively (see Note 7). No allowance to reduce inventory to NRV was recognized in 2018 and 2017.

##### *Estimation of Useful Lives of Property and Equipment*

The Company estimates the useful lives of property and equipment based on the period over which these 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 asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible that future financial performance could be materially affected by changes in these estimates brought about by changes in the factors mentioned. Any reduction in the estimated useful lives of the property and equipment would increase depreciation and amortization expense and decrease noncurrent assets.

The estimated useful lives of property and equipment are discussed in Note 3 to financial statements. There is no change in the estimated useful lives of property and equipment in 2018 and 2017.

The carrying amounts of property and equipment as at December 31, 2018 and 2017 are P9,170,411 and P5,096,872, respectively (see Note 9).

*Estimation of Retirement Benefits Liability and Costs*

The cost of defined benefits retirement plans, as well as the present value of the retirement benefits obligation, is determined using actuarial valuations. The actuarial valuations involves making various assumptions. These include the determination of the discount rates, and future salary increases, among others. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefits obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting period.

The Company has retirement benefits liability amounting to P1,112,907 and P1,550,561 as at December 31, 2018 and 2017, respectively (see Note 17).

*Recognition of Deferred Income Tax Assets*

The Company reviews its deferred income tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. The Company also reviews the expected timing and tax rates upon reversal of temporary differences and adjusts the impact on deferred income tax accordingly. The Company's assessment on the recognition of deferred income tax assets is based on the forecasted taxable income of the subsequent reporting periods. This forecast is based on the Company's past results and future expectations on revenues and expenses. While the Company believes that its assumptions are appropriate and reasonable, significant changes in these assumptions may materially affect the Company's assessment of the realizability of deferred income tax assets and may lead to future addition to the provision for deferred income tax.

As at December 31, 2018 and 2017, the Company has not recognized deferred income tax assets arising from temporary differences amounting to a total of P7,691,884 and P4,548,349, respectively (see Note 18).

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**5. Cash**

This account consists of:

	Note	2018	2017
Cash on hand		P421,000	P416,000
Cash in banks	19	82,180,501	263,509,726
		<b>P82,601,501</b>	<b>P263,925,726</b>

Cash in banks earns interest at the respective bank deposit rates.

Interest income recognized in profit or loss amounted to P2,397,647 and P781,573 in 2018 and 2017, respectively.



## 6. Trade and Other Receivables

This account consists of:

	<i>Note</i>	2018	2017
Trade			
Third parties		<b>P657,395,462</b>	P765,425,643
Related parties	13	<b>185,699,843</b>	284,419,163
Nontrade		<b>1,097,882</b>	808,890
Others		<b>4,521,220</b>	2,698,015
	19	<b>P848,714,407</b>	P1,053,351,711

Trade receivables are non-interest-bearing and are generally on a 30 to 90-day credit term.

Non-trade receivables pertain to receivables from suppliers for the reimbursements of expenses incurred by the Company for brand promotions. These are non-interest-bearing and are generally on a 30-day credit term.

There was no allowance for impairment losses on receivables as at December 31, 2018 and 2017.

## 7. Inventories

This account consists of:

	<i>Note</i>	2018	2017
At cost:			
Spirits		<b>P2,521,243,647</b>	P1,185,079,637
Wines		<b>20,713,443</b>	76,443,123
Water		-	1,034,193
	15	<b>P2,541,957,090</b>	P1,262,556,953

Cost of goods sold recognized in profit or loss amounted to P4,019,765,423 and P2,767,822,893 in 2018 and 2017, respectively (see Note 15).

## 8. Prepaid Expenses and Other Current Assets

This account consists of:

	2018	2017
Prepaid duties and taxes	<b>P543,115,123</b>	P188,806,480
Advances to suppliers	<b>105,397,992</b>	238,290,465
Input VAT	<b>91,102,251</b>	-
Prepaid import charges	<b>369,522</b>	137,703
Other prepaid expenses	<b>313,719</b>	68,300
	<b>P740,298,607</b>	P427,302,948

Prepaid duties and taxes include advance payment for excise taxes, custom's duties and seals for purchased goods not yet received.

Advances to suppliers pertain to partial downpayment made by the Company to suppliers which will be applied against future billings.

## 9. Property and Equipment

The movements and balances in this account are as follows:

	Transportation and Delivery Equipment	Leasehold Improvements	Office Equipment	Furniture and Fixtures	Total
<b>Cost</b>					
December 31, 2016	P5,187,557	P2,295,229	P1,323,314	P1,759,428	P10,565,528
Additions	2,201,786	-	200,482	-	2,402,268
December 31, 2017	7,389,343	2,295,229	1,523,796	1,759,428	12,967,796
Additions	6,635,464	-	152,899	16,000	6,804,362
December 31, 2018	14,024,807	2,295,229	1,676,694	1,775,428	19,772,158
<b>Accumulated Depreciation and Amortization</b>					
December 31, 2016	2,036,574	599,496	997,784	1,443,614	5,077,448
Depreciation and amortization	1,382,070	791,564	337,178	282,666	2,793,476
December 31, 2017	3,418,644	1,391,060	1,334,940	1,728,280	7,870,924
Depreciation and amortization	1,800,905	706,140	184,831	39,147	2,730,823
December 31, 2018	6,219,549	2,097,200	1,519,571	1,765,427	10,601,747
<b>Net Book Value</b>					
December 31, 2017	P3,970,699	P904,169	P188,856	P33,148	P5,096,872
December 31, 2018	P8,805,258	P198,029	P157,123	P10,001	P9,170,411

Depreciation and amortization expense for the years ended December 31, 2018 and 2017 were charged as part of "Operating Expenses" in profit or loss.

## 10. Refundable Deposits

This account consists of:

	Note	2018	2017
Security deposits	16	P2,007,564	P1,914,634
Others		138,319	122,819
	19	P2,145,883	P2,037,453

## 11. Trade and Other Payables

This account consists of:

	Note	2018	2017
Trade payables	19	P496,420,164	P106,781,808
Non-trade payables	19	75,505,513	24,167,746
Accrued expenses	19	6,495,002	29,663,434
Statutory obligations		3,900,026	2,102,453
Output VAT - net		-	20,741,783
Others	19	-	260,789
		P582,320,705	P183,718,013

Trade payables are non-interest-bearing and are generally on a 30 to 60-day payment term.

Non-trade payables are amounts owed to non-trade suppliers such as manpower agencies, freight companies and other non-trade payment transactions. These are non-interest bearing and are generally on a 30-day payment term.

Accrued expenses consist of accruals for interest, utilities, advertisement and other operating expenses.

## 12. Notes Payable

This account pertains to unsecured, peso-denominated short-term notes from various local banks with maturities of less than one (1) year and bear annual interests from 3.75% to 6.00% in 2018 and 2.13% in 2017. These loans were intended for the Company's working capital requirements to finance inventory purchases.

Interest expense recognized in profit or loss relating to notes payable amounted to P7,560,695 and P1,791,094 for the years ended December 31, 2018 and 2017, respectively.

## 13. Related Party Transactions

Transactions and account balances with related parties as at and for the years ended December 31 are as follows:

Category/ Transaction	Year	Ref	Transactions During the Year	Outstanding Balance		Terms	Conditions
				Receivable	Payable		
<b>Parent Company</b>							
• Advances	2018	13c	P -	P -	P -	2 years, interest-bearing	Unsecured
	2017	13c	-	-	234,000,000		
• Interest expense	2018	13c	1,750,100	-	-	Annual interest at 1.8%, payable on a monthly basis	
	2017	13c	5,958,000	-	-		
• Dividends	2018	14	100,000,000	-	200,000,000	Due and demandable	Unsecured
	2017	14	100,000,000	-	100,000,000		
<b>Entities under Common Control</b>							
• Sales of goods	2018	6, 13a	1,313,414,818	185,599,843	-	30 days	Unsecured, no impairment
	2017	6, 13a	952,094,114	284,419,163	-	Credit term, non-interest bearing	
• Rent expense	2018	13b	11,990,079	-	-		
	2017	13b	11,133,409	-	-		
<b>Stockholder</b>							
• Advances	2018	13d	659,500,000	-	659,500,000	1 year, interest-bearing	Unsecured
	2017	13d	-	-	-		
• Interest expense	2018	13d	4,134,722	-	4,134,722	Annual interest at 4.0%, payable on a monthly basis	Unsecured
	2017	13d	-	-	-		
	2018			P185,599,843	P863,834,722		
	2017			P284,419,163	P334,000,000		

- In the normal course of business, the Company distributes wines, liquors and water to entities under common control.
- The Company entered into operating lease agreements with an entity under common control for its office space and warehouse (see Note 16).
- The Company received cash advances from its Parent Company in a form of promissory notes. These advances earn fixed annual interest rate of 1.8% with maturities of two (2) years. The principal, including interest, was paid by the Company in 2018.
- The Company received cash advances from a stockholder in a form of promissory notes. These advances earn fixed annual interest rate of 4.0% with maturities of one (1) year. The advances were intended for the Company's working capital requirements to finance inventory purchases.



There is no key management compensation since the key management roles are functionally domiciled under the Parent Company.

Amounts owed by and owed to related parties are to be settled in cash.

#### 14. Equity

##### Capital Stock

The balances as at December 31, 2018 and 2017 are as follows:

	2018		2017	
	Number of Shares	Amount	Number of Shares	Amount
<b>Authorized</b>				
P100 par value	7,500,000	P750,000,000	7,500,000	P750,000,000
<b>Issued and Outstanding</b>				
Balance at beginning of year	7,500,000	P750,000,000	2,100,000	P210,000,000
Stock issuances	-	-	5,400,000	540,000,000
<b>Balance at end of year</b>	<b>7,500,000</b>	<b>P750,000,000</b>	<b>7,500,000</b>	<b>P750,000,000</b>

Ordinary shares carry one vote per share and a right to dividends.

On December 8, 2016, the Company's BOD approved the increase in its authorized capital stock from P210,000,000 divided into 2,100,000 common shares to P750,000,000 divided into 7,500,000 shares of common stock, both at P100 par value to accommodate the stock dividends declared.

On July 5, 2017, the SEC approved the Company's increase in authorized capital stock. Upon approval of the increase in authorized capital stock, the stock dividends amounting to P540,000,000 were applied against the increase in authorized capital stock and the related shares were issued.

##### Declaration of Dividends

On November 28, 2017, the Company's BOD approved the declaration of cash dividends of P13.33 per share or an aggregate amount of P100,000,000, payable to stockholders of record as of the same date.

On December 18, 2018, the Company's BOD approved the declaration of cash dividends of P13.33 per share or an aggregate amount of P100,000,000, payable to stockholders of record as of the same date. Both dividends remain outstanding as at December 31, 2018.

##### Retained Earnings

Under the Philippine Corporation Code (the Code), stock corporations are prohibited from retaining surplus profits in excess of 100% of their paid-up capital stock except when justified by any of the reasons mentioned in the code.

As at December 31, 2017, the Company has retained earnings in excess of its paid-up capital amounting to P234,279,425. These retained earnings will be subjected to yearly cycle of capital structure review wherein management will determine the amount of cash dividends to be declared, subject to statutory approvals and clearances.

On December 13, 2018, the BOD approved the appropriation of P950,000,000 from the Company's unappropriated retained earnings to finance the acquisition of land, and construction and establishment of new warehouse and related facilities. The construction is expected to be completed in December 2020.

#### 15. Cost of Goods Sold

This account consists of:

	Note	2018	2017
Inventory at beginning of year		P1,262,556,953	P1,475,118,002
Net purchases		5,299,165,560	2,555,261,844
Total goods available for sale		6,561,722,513	4,030,379,846
Inventory at end of year	7	2,541,957,090	1,262,556,953
		P4,019,765,423	P2,767,822,893

#### 16. Lease Agreements

##### Company as Lessee

- The Company entered into a lease agreement with an entity under common control for its office space with an area of 150.84 square meters. The lease is for a period of two (2) years until June 30, 2016. The lease was renewed for another 3 years until June 30, 2019. The lease has an annual escalation rate of 5%. Rent expense amounted to P783,192 and P731,643 in 2018 and 2017, respectively.
- The Company entered into a lease agreement with a third party for a warehouse with an area of 3,869 square meters. The lease is for a period of three (3) years commencing on November 1, 2014 until October 31, 2017. The lease agreement was not renewed.
- The Company entered into a lease agreement with an entity under common control for a warehouse with an area of 5,770.84 square meters. The lease is for a period of two (2) years commencing on January 1, 2016 until December 31, 2017. The lease was renewed for another three (3) years until December 31, 2020. Rent expense amounted to P10,906,887 and P10,387,512 in 2018 and 2017, respectively.

The lease payments provides for, among others, security deposits amounting to P2,007,564 and P1,914,634 as at December 31, 2018 and 2017, respectively, which are shown under "Refundable Deposits" account in the statements of financial position (see Note 10).

Total rent expense on the above-mentioned lease agreements recognized in profit or loss amounted to P11,690,079 and P15,354,658 in 2018 and 2017, respectively.

Future minimum lease payments under noncancellable operating leases as at December 31 are as follows:

	2018	2017
Not later than one year	P11,871,480	P749,340
Later than one year but not later than five years	12,024,844	383,808
	P23,896,324	P1,133,148

## 17. Retirement Benefits Liability

The Company has an unfunded, noncontributory, defined benefits retirement plan covering all of its regular, full-time employees. Under the plan, the employees are entitled to retirement benefits equivalent to an amount computed based on Republic Act No. 7641, *Retirement Pay Law*, equivalent to one-half month's salary for every year of service, with six months or more of service considered as one year.

Costs are determined in accordance with the actuarial studies made for the plan. Annual cost is determined using the projected unit credit method. The Company's latest actuarial valuation date is December 31, 2018.

The following table shows the reconciliation from the opening balances to the closing balances for retirement benefits liability and its components:

	2018	2017
<b>Balance at beginning of year</b>	<b>P1,550,561</b>	<b>P1,204,996</b>
<b>Recognized in Profit or Loss</b>		
Interest cost	83,420	64,829
Current service cost	199,914	280,736
	<b>283,334</b>	<b>345,565</b>
<b>Recognized in Other Comprehensive Income</b>		
Actuarial loss (gain) arising from:		
Experience adjustments	666,330	-
Change in financial assumptions	(315,195)	-
Change in demographic assumptions	(952,123)	-
	<b>(600,988)</b>	<b>-</b>
Benefits paid	(120,000)	-
<b>Balance at end of year</b>	<b>P1,112,907</b>	<b>P1,550,561</b>

The retirement benefits costs is recognized as part of "Salaries and other employee benefits" account under operating expenses in the statements of comprehensive income.

The plan exposes the Company to actuarial risks such as interest rate risk, longevity risk and salary risk as follows:

### *Interest Risk*

The present value of the defined benefits obligation is calculated using a discount rate determined by reference to market yields to government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation.

### *Longevity and Salary Risks*

The present value of the defined obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

The principal actuarial assumptions (in percentages) used to determine retirement benefits are as follows:

	2018
Discount rate	7.52%
Future salary increases	3.00%

Assumptions for mortality and disability rates are based on published statistics and mortality and disability tables.

The weighted average duration of defined benefits obligation is 11.3 years as at December 31, 2018.

As at December 31, the reasonably possible changes to one of the relevant actuarial assumptions, while holding all other assumptions constant, would have affected the defined benefits liability by the amounts below:

	2018		2017	
	Defined Benefits Liability 1 Percent Increase	Defined Benefits Liability 1 Percent Decrease	Defined Benefits Liability 1 Percent Increase	Defined Benefits Liability 1 Percent Decrease
Discount rate	(P94,820)	P72,562	(P98,926)	P67,915
Salary increase rate	44,516	(22,268)	62,022	(31,011)

Although the analysis does not take into account the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumption shown.

#### *Funding Arrangements*

The plan is unfunded and noncontributory. Benefit claims under the retirement benefits plan obligation are paid directly by the Company when they become due.

#### *Asset-Liability Matching (ALM)*

The Company does not perform any ALM study. The Company has no plan assets to match against liabilities under the retirement plan.

Maturity analysis based on a ten (10) year projection of the expected future benefit payments is as follows:

	December 31, 2018				
	Carrying Amount	Contractual Cash Flows	Within 1 Year	Within 1-5 Years	More than 5 Years
Retirement benefits liability	P1,112,907	P1,816,821	P -	P -	P1,816,821

## 18. Income Taxes

The components of provision for income tax are shown below:

	2018	2017
Current	P245,685,899	P171,220,940
Deferred	-	(412,784)
	P245,685,899	P170,808,156



The current provision for income tax represents regular corporate income tax (RCIT) in both years.

The Company elected to avail of the optional standard deduction (OSD) which is equivalent to 40% of total gross income in 2018 and 2017.

The reconciliation of the provision for income tax computed at the statutory income tax rate and the provision for income tax shown in profit or loss for the years ended December 31 is as follows:

	2018	2017
Income before income tax	<b>P954,936,467</b>	P641,575,372
Provision for income tax at the statutory income tax rate of 30%	<b>P286,480,940</b>	P192,472,611
Additions to (reductions from) income taxes resulting to the tax effects of:		
Availment of optional standard deduction	(163,790,600)	(114,147,292)
Non-deductible expenses	121,692,160	92,368,150
Change in unrecognized deferred income tax asset	2,058,693	-
Interest income subjected to final tax	(719,294)	(234,472)
Derecognition of deferred income tax asset	-	349,159
Provision for income tax	<b>P245,685,899</b>	P170,808,156

The following table shows the amounts of temporary differences for which no deferred income tax asset was recognized because management believes that it is not probable that the tax benefits of these temporary differences will be availed of as the Company intends to continue its availment of the optional standard deduction in the subsequent years:

	2018	2017
Unrealized foreign exchange loss - net	<b>P6,578,977</b>	P3,047,788
Retirement benefits liability	1,112,907	1,500,561
	<b>P7,691,884</b>	P4,548,349

## 19. Financial Risk and Capital Management Objectives and Policies

### Objectives and Policies

The Company's BOD has overall responsibility for the establishment and oversight of the Company's risk management framework. The BOD has delegated to management the responsibility of developing and monitoring the Company's risk management policies.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The BOD oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

The Company has exposure to the following risks from its use of financial instruments:

- Credit Risk
- Liquidity Risk
- Market Risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risks, and the Company's management of capital.

The Company's overall risk management program seeks to minimize potential adverse effects on the financial performance of the Company. There were no changes in the exposures to each of the above risks and to the Company's objectives, policies and processes for measuring and managing the risk from the previous period. The policies for managing specific risks are summarized below:

#### Credit Risk

Credit risk represents the risk of loss the Company would incur if credit customers and counterparties fail to perform their contractual obligations. The Company's credit risk arises from the Company's use of its financial assets. Credit risk management involves entering into financial transactions only with counterparties with acceptable credit rating.

The carrying amount of financial assets represents the maximum credit exposure to credit risk as at December 31 as follows:

	Note	2018	2017
Cash in banks	5	P82,180,501	P263,509,726
Trade and other receivables	6	848,714,407	1,053,351,711
Refundable deposits	10	2,145,883	2,037,453
		<b>P933,040,791</b>	<b>P1,318,898,890</b>

As at December 31, 2018 and 2017, the aging per class of financial assets is as follows:

	Neither Past Due nor Impaired	December 31, 2018			Impaired	Total
		1 to 30 Days	31 to 120 Days	More than 120 Days		
Cash in banks	P82,180,501	P -	P -	P -	P -	P82,180,501
Trade and other receivables	743,270,666	104,759,320	614,838	69,785	-	848,714,407
Refundable deposits	2,145,883	-	-	-	-	2,145,883
	<b>P827,597,050</b>	<b>P104,759,320</b>	<b>P614,838</b>	<b>P69,785</b>	<b>P -</b>	<b>P933,040,791</b>

	Neither Past Due nor Impaired	December 31, 2017			Impaired	Total
		1 to 30 Days	31 to 120 Days	More than 120 Days		
Cash in banks	P263,509,726	P -	P -	P -	P -	P263,509,726
Trade and other receivables	833,065,992	184,336,352	35,949,367	-	-	1,053,351,711
Refundable deposits	2,037,453	-	-	-	-	2,037,453
	<b>P1,098,613,171</b>	<b>P184,336,352</b>	<b>P35,949,367</b>	<b>P -</b>	<b>P -</b>	<b>P1,318,898,890</b>

As at December 31, 2018 and 2017, no allowance for impairment losses on trade and other receivables was recognized.

Based on the historical default rates, the Company believes that no impairment allowance is necessary in respect of trade and other receivables that are past due but not impaired because such accounts relate to customers that have good payment records with the Company. On the other hand, the Company believes that no impairment loss is necessary in respect of other financial assets since they are neither past due nor impaired.

The Company's policy is to enter into transactions with a diversity of credit worthy parties to mitigate any significant concentration of credit risk. There is no significant concentration of credit risk within the Company.

As at December 31, 2018 and 2017, the Company does not expect any counterparty, other than trade customers, to fail in meeting its obligations, thus, related risk is deemed to be insignificant.

#### *Credit Quality*

In monitoring and controlling credit extended to counterparty, the Company adopts a comprehensive credit rating system based on financial and non-financial assessments of its customers. Financial factors being considered comprised of the financial standing of the customer while the non-financial aspects include but are not limited to the assessment of the customer's nature of business, management profile, industry background, payment habit and both present and potential business dealings with the Company.

The credit quality of the Company's financial assets that are neither past due nor impaired as at December 31, 2018 and 2017 are as follows:

	December 31, 2018			
	High Grade	Standard Grade	Substandard Grade	Total
Cash in banks	P82,180,501	P -	P -	P82,180,501
Trade and other receivables	743,270,666	-	-	743,270,666
Refundable deposits	2,145,883	-	-	2,145,883
<b>Total</b>	<b>P827,597,050</b>	<b>P -</b>	<b>P -</b>	<b>P827,597,050</b>

	December 31, 2017			
	High Grade	Standard Grade	Substandard Grade	Total
Cash in banks	P263,509,726	P -	P -	P263,509,726
Trade and other receivables	833,065,992	-	-	833,065,992
Refundable deposits	2,037,453	-	-	2,037,453
<b>Total</b>	<b>P1,098,613,171</b>	<b>P -</b>	<b>P -</b>	<b>P1,098,613,171</b>

The Company assessed the credit quality of the following financial assets that are neither past due nor impaired as follows:

- a. Cash in banks were assessed as high grade since these are deposited in reputable banks with a good credit standing, which have a low probability of insolvency and can be withdrawn anytime. The credit quality of these financial assets is considered to be high grade.
- b. Trade and other receivables and refundable deposits were assessed as high grade since these have a high probability of collection and there is no history of default.



#### *Expected Credit Loss Assessment as at December 31, 2018*

The Company allocates each exposure to a credit risk on data that are determined to be predictive of the risk of loss (including but not limited to external ratings, audited financial assets, management accounts and cash flow projections and available press information about customers) and applying expected credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default.

Exposures within each credit risk grade are assessed based on delinquency and actual credit loss experience. The Company considered both historical loss rate and forward-looking assumptions. The Company assessed that the impact of forward-looking assumption is immaterial.

#### Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk by maintaining a balance between continuity of funding and flexibility in operations. Treasury controls and procedures are in place to ensure that sufficient cash is maintained to cover daily operational and working capital requirements, as well as capital expenditures and loan payments. Management closely monitors the Company's future and contingent obligations and sets up required cash reserves as necessary in accordance with internal requirements.

The following are contractual maturities of financial liabilities as at December 31:

	December 31, 2018			
	Carrying Amount	Contractual Cash Flows	1 Year or Less	More than 1 Year
Financial Liabilities				
Trade and other payables*	P578,420,679	P578,420,679	P578,420,679	P -
Notes payable	353,000,000	355,958,250	355,958,250	-
Advances from a Stockholder	659,500,000	685,880,000	685,880,000	-
Dividends payable	200,000,000	200,000,000	200,000,000	-
<b>Total</b>	<b>P1,790,920,679</b>	<b>P1,820,258,929</b>	<b>P1,820,258,929</b>	<b>P -</b>

*\*Excluding statutory obligations amounting to P3,900,026.*

	December 31, 2017			
	Carrying Amount	Contractual Cash Flows	1 Year or Less	More than 1 Year
Financial Liabilities				
Trade and other payables*	P160,873,777	P160,873,777	P160,873,777	P -
Notes payable	700,000,000	706,412,847	706,412,847	-
Advances from Parent Company	234,000,000	238,212,000	238,212,000	-
Dividends payable	100,000,000	100,000,000	100,000,000	-
<b>Total</b>	<b>P1,194,873,777</b>	<b>P1,205,498,624</b>	<b>P1,205,498,624</b>	<b>P -</b>

*\*Excluding statutory obligations and Output VAT amounting to P22,844,236.*

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

#### Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and other market prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. The Company is subject to various risks, including foreign currency risk and interest rate risk.

### *Interest Rate Risk*

Interest rate risks 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's exposure to the risk for changes in market interest rates relates mainly to the Company's notes payable, advances from a stockholder and advances from Parent Company. The Company manages this risk by transacting its loans either with short-term maturities or with fixed interest rates. Accordingly, management believes that the Company does not have significant interest rate risk.

### *Foreign Currency Risk*

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's exposure to foreign currency risk relates primarily to the Company's foreign currency-denominated monetary assets and monetary liabilities. The currencies in which these transactions are primarily denominated are in United States dollar (USD), Singaporean dollar (SGD) and Euro (EUR).

The following table shows the Company's foreign currency-denominated monetary assets and monetary liabilities and their Philippine peso (PHP) equivalents as at December 31:

	December 31, 2018			
	USD	SGD	EUR	PHP Equivalent
Foreign currency - denominated monetary assets				
Cash	41,406	-	-	2,183,099
Trade receivables	1,658,325	-	-	87,433,551
	1,699,731	-	-	89,616,650
Foreign currency - denominated monetary liabilities				
Trade payable	(165,970)	(21,100)	(7,868,164)	(484,099,184)
Net foreign currency - denominated monetary assets (liabilities)	1,533,761	(21,100)	(7,868,164)	(394,482,534)
	December 31, 2017			
	USD	SGD	EUR	PHP Equivalent
Foreign currency - denominated monetary assets				
Cash	206,431	-	-	10,307,120
Trade receivables	3,289,798	-	-	164,259,589
	3,496,229	-	-	174,566,709
Foreign currency - denominated monetary liabilities				
Trade payable	-	(35,406)	(466,798)	(29,148,710)
Net foreign currency - denominated monetary assets (liabilities)	3,496,229	(35,406)	(466,798)	145,417,999

In translating the foreign currency-denominated monetary assets and monetary liabilities into Philippine peso amounts, the significant exchange rates applied are as follows:

	2018	2017
USD	52.72	49.93
SGD	38.47	37.32
EUR	60.31	59.61

The following table demonstrates sensitivity of cash flows due to changes in foreign exchange rates with all variables held constant.

December 31, 2018		
	Percentage Increase in Foreign Exchange Rates	Effect in Income before Income Tax
USD	6%	P4,851,593 increase
SGD	3%	24,352 decrease
EUR	2%	9,490,579 decrease

December 31, 2017		
	Percentage Increase in Foreign Exchange Rates	Effect in Income before Income Tax
USD	5%	P8,728,336 increase
SGD	7%	92,495 decrease
EUR	9%	2,504,325 decrease

Changes in foreign exchange rates are based on the average of the banks' forecasted closing exchange rates during the first quarter of the following calendar year. A movement in the opposite direction would increase/decrease income before income tax by the same amount, on the basis that all other variables remains constant.

#### Capital Risk Management

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

The Company manages its capital structure and makes adjustments, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Company may pay-off existing debts, return capital to stockholders or issue new shares.

The Company defines capital as paid-in capital stock and retained earnings.

There were no changes in the Company's approach to capital management during the year.

The Chief Financial Officer has the overall responsibility for monitoring of capital in proportion to risk. Profiles for capital ratios are set in the light of changes in the Company's external environment and the risks underlying the Company's business operations and industry.

The Company is not subject to externally-imposed capital requirements.

## 20. Fair Values of Financial Instruments

*Cash, Trade and Other Receivables, Trade and Other Payables, Advances from a Stockholder, Advances from Parent Company, Notes Payable and Dividends Payable*

The carrying amounts approximate fair values primarily due to the relatively short-term maturities of these financial instruments.

### *Refundable Deposits*

The carrying amount of refundable deposit approximates its fair values as the impact of discounting is not significant.

## 21. Note to Statements of Cash Flows

Reconciliation of movements of liabilities to cash flows arising from financing activities are as follows:

	December 31, 2018				
	Notes Payable	Accrued Interests	Advances from a Stockholder and Parent Company	Dividends Payable	Total
Balances at beginning of year	P700,000,000	P940,732	P234,000,000	P100,000,000	P1,034,940,732
Payments of:					
Advances from Parent Company	-	-	(234,000,000)	-	(234,000,000)
Notes payable	(700,000,000)	-	-	-	(700,000,000)
Interest	-	(10,251,527)	-	-	(10,251,527)
Proceeds from avaiement of:					
Notes payable	353,000,000	-	-	-	353,000,000
Advances from a stockholder	-	-	659,500,000	-	659,500,000
Interest expense	-	13,445,517	-	-	13,445,517
Dividends declared	-	-	-	100,000,000	100,000,000
	(347,000,000)	3,193,990	425,500,000	100,000,000	181,693,990
Balances at end of year	P353,000,000	P4,134,722	P659,500,000	P200,000,000	P1,216,634,722

	December 31, 2017				
	Notes Payable	Accrued Interests	Advances from a Stockholder and Parent Company	Dividends Payable	Total
Balances at beginning of year	P175,000,000	P -	P524,000,000	P -	P699,000,000
Payments to:					
Advances from Parent Company	-	-	(290,000,000)	-	(290,000,000)
Notes payable	(175,000,000)	-	-	-	(175,000,000)
Interest	-	(6,808,362)	-	-	(6,808,362)
Proceeds from avaiement of:					
Notes payable	700,000,000	-	-	-	700,000,000
Interest expense	-	7,749,094	-	-	7,749,094
Dividends declared	-	-	-	100,000,000	100,000,000
	525,000,000	940,732	(290,000,000)	100,000,000	335,940,732
Balances at end of year	P700,000,000	P940,732	P234,000,000	P100,000,000	P1,034,940,732

**22. Supplementary Information Required by the Bureau of Internal Revenue (BIR)  
Based on Revenue Regulations No.15-2010**

In addition to the disclosures mandated under PFRS, and such other standards and/or conventions as may be adopted, companies are required by the BIR to provide in the notes to financial statements, certain supplementary information for the taxable year. The amounts relating to such supplementary information may not necessarily be the same with those amounts disclosed in the financial statements which were prepared in accordance with PFRS. The following is the supplementary information required for the taxable year ended December 31, 2018:

**a. VAT**

Output VAT	<b>P624,540,780</b>
<i>Account title used:</i>	
Basis of the Output VAT:	
Vatable sales	P5,180,043,232
Sale to government	24,463,267
Zero-rated sales	85,922,459
Exempt sales	1,418,656
	<b>P5,291,847,614</b>
Input VAT	
Beginning of the year	P -
Current year's domestic purchases:	
a. Goods other than capital goods	91,797,291
b. Services lodged under other accounts	27,449,324
VAT on importations	569,073,553
VAT payments and other adjustments	27,322,863
VAT credits used	(624,540,780)
Balance at the end of the year	<b>P91,102,251</b>

**b. Customs Duties and Tariff Fees:**

Landed cost of imports	P4,742,279,612
Customs duties paid or accrued	334,098,708
	<b>P5,076,378,320</b>

**c. Excise Taxes**

Imported excisable items:	
a. Spirits	P1,272,816,415
b. Wines	12,908,666
	<b>P1,285,725,081</b>



d. **Documentary Stamp Tax**

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<i>Documentary stamp tax paid during the year recognized under "Taxes and licenses" account under Operating Expenses</i>	
On loan instruments	P5,921,455
On others	789,571
	<hr/>
	P6,711,026

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e. **Withholding Taxes**

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Expanded withholding taxes	P14,152,256
Tax on compensation and benefits	1,246,354
	<hr/>
	P15,398,610

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f. **All Other Taxes (Local and National)**

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<i>Other taxes paid during the year recognized under "Taxes and licenses" account under Operating Expenses</i>	
License and permit fees	P3,810,755
Others	177,621
	<hr/>
	P3,988,376

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g. **Tax Cases and Assessment**

As at December 31, 2018, the Company has no pending tax cases nor has received tax assessments notices from the BIR.

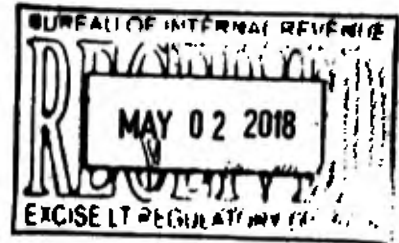
Information on tariff fees, paid or accrued, are not applicable since the Company did not enter into transaction which will result to payment or accrual of such taxes.



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**REPORT OF INDEPENDENT AUDITORS**

The Board of Directors and Stockholders  
**Montosco, Inc.**  
1501 Federal Tower, Dasmarinas Street  
Binondo, Manila



**Report on the Audit of the Financial Statements**

*Opinion*

We have audited the financial statements of Montosco, Inc. (the "Company"), a wholly-owned subsidiary of Cosco Capital, Inc., which comprise the statements of financial position as at December 31, 2017 and 2016, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended 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 *Auditors' 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 audit of the 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.





## *Responsibilities of Management and Those Charged With Governance for the Financial Statements*

Management is responsible for the preparation and fair presentation of the 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 its operations, or has no realistic alternative but to do so.

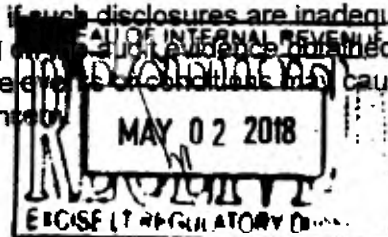
Those charged with governance are responsible for overseeing the Company's financial reporting process.

## *Auditors' Responsibilities for the Audit of the 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 auditors' 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, they could reasonably be expected to influence the economic decisions of users taken on the basis of these 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 audit 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 auditors' 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 evidence furnished up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.





- 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 audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010 of the Bureau of Internal Revenue**

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 21 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

**R.G. MANABAT & CO.**

*Maria Arlene C. Yu*  
MARIA ARLEENE C. YU

Partner

CPA License No. 0108855

Tax Identification No. 225-068-761

BIR Accreditation No. 08-002511-041-2018

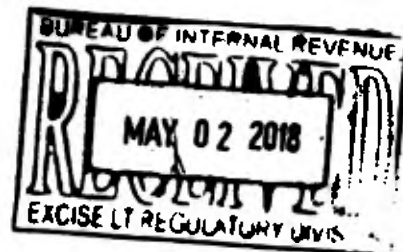
Issued February 6, 2018, valid until February 5, 2021

PTR No. 6615158MD

Issued January 3, 2018 at Makati City

April 26, 2018

Makati City, Metro Manila



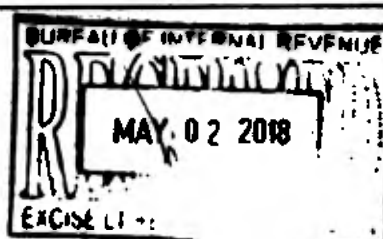
**MONTOSCO, INC.**  
**(A Wholly-owned Subsidiary of Cosco Capital, Inc.)**  
**STATEMENTS OF FINANCIAL POSITION**



December 31

	Note	2017	2016
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	4	P263,925,726	P341,419,540
Trade and other receivables	5	1,053,351,711	853,925,392
Inventories	6	1,262,556,953	1,475,118,002
Prepaid expenses and other current assets	7	427,302,948	89,375,851
<b>Total Current Assets</b>		<b>3,007,137,338</b>	<b>2,759,838,785</b>
<b>Noncurrent Assets</b>			
Property and equipment - net	8	5,096,872	5,488,080
Refundable deposits	9	2,037,453	3,234,729
<b>Total Noncurrent Assets</b>		<b>7,134,325</b>	<b>8,722,809</b>
		<b>P3,014,271,663</b>	<b>P2,768,561,594</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Trade and other payables	10	P183,718,013	P608,353,931
Advances from Parent Company - current	12	234,000,000	290,000,000
Notes payable	11	700,000,000	175,000,000
Income tax payable		60,764,797	96,118,807
Dividends payable	13	100,000,000	-
<b>Total Current Liabilities</b>		<b>1,278,482,810</b>	<b>1,169,472,738</b>
<b>Noncurrent Liabilities</b>			
Retirement benefits liability	16	1,550,561	1,204,996
Advances from Parent Company - noncurrent	12	-	234,000,000
Deferred income tax liability - net	17	-	400,444
<b>Total Noncurrent Liabilities</b>		<b>1,550,561</b>	<b>235,605,440</b>
<b>Total Liabilities</b>		<b>1,280,033,371</b>	<b>1,405,078,178</b>
<b>Equity</b>			
Capital stock	13	750,000,000	210,000,000
Stock dividends distributable	13	-	540,000,000
Retained earnings	13	984,279,425	613,512,209
Accumulated remeasurements on retirement benefits		(41,133)	(28,793)
<b>Total Equity</b>		<b>1,734,238,292</b>	<b>1,363,483,416</b>
		<b>P3,014,271,663</b>	<b>P2,768,561,594</b>

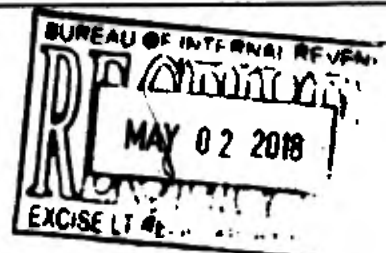
See Notes to the Financial Statements.

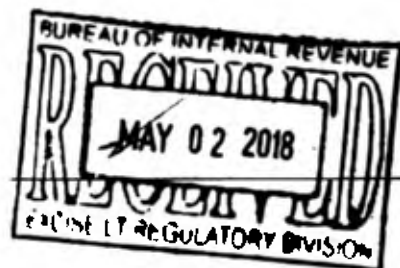


**MONTOSCO, INC.**  
**(A Wholly-owned Subsidiary of Cosco Capital, Inc.)**  
**STATEMENTS OF COMPREHENSIVE INCOME**

		Years Ended December 31	
	Note	2017	2016
<b>NET SALES</b>	12a	P3,647,917,229	P3,113,653,128
<b>COST OF GOODS SOLD</b>	14	2,767,822,893	2,373,019,245
<b>GROSS PROFIT</b>		880,094,336	740,633,883
<b>OPERATING EXPENSES</b>			
Advertisement		111,354,403	100,944,144
Distribution costs		62,499,779	24,448,651
Outside services		28,179,248	43,300,317
Salaries and other employee benefits		18,213,055	15,913,616
Taxes and licenses		17,140,918	5,611,970
Rent	15	15,354,658	16,484,343
Insurance		7,034,651	7,274,001
Transportation and travel		5,213,951	2,823,243
Depreciation and amortization	8	2,793,476	1,850,926
Representation and entertainment		1,397,385	1,366,388
Management fee	12d	-	70,000,000
Miscellaneous		11,931,531	9,682,268
		281,113,055	299,700,867
<b>INCOME FROM OPERATIONS</b>		598,981,281	440,933,016
<b>OTHER INCOME (CHARGES) - Net</b>			
Commission income		68,593,291	72,188,191
Interest expense	11, 12c	(7,749,094)	(12,335,226)
Foreign exchange gain (loss) - net	18	(19,031,679)	789,989
Interest income	4	781,573	349,956
		42,594,091	60,992,910
<b>INCOME BEFORE INCOME TAX</b>		641,575,372	501,925,926
<b>PROVISION FOR INCOME TAX</b>	17	170,808,156	150,516,098
<b>NET INCOME</b>		470,767,216	351,409,828
<b>OTHER COMPREHENSIVE LOSS</b>			
<b>Item that will never be reclassified to profit or loss</b>			
Remeasurement loss on retirement benefits	16	-	(41,133)
Income tax effect		(12,340)	12,340
		(12,340)	(28,793)
<b>TOTAL COMPREHENSIVE INCOME</b>		P470,754,876	P351,381,035

See Notes to the Financial Statements.





**MONTOSCO, INC.**  
**(A Wholly-owned Subsidiary of Cosco Capital, Inc.)**  
**STATEMENTS OF CHANGES IN EQUITY**

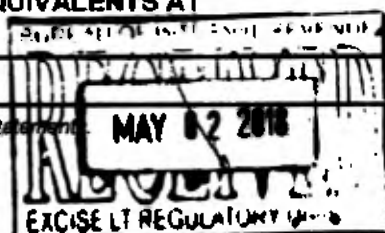
	Capital Stock (Note 13)	Stock Dividends Distributable (Note 13)	Retained Earnings (Note 13)	Accumulated Remeasurements on Retirement Benefits	Total
As at December 31, 2015	P210,000,000	P -	P802,102,381	P -	P1,012,102,381
Net income for the year	-	-	351,409,828	-	351,409,828
Other comprehensive loss for the year	-	-	-	(28,793)	(28,793)
Total comprehensive income (loss)	-	-	351,409,828	(28,793)	351,381,035
Stock dividends declared	-	540,000,000	(540,000,000)	-	-
As at December 31, 2016	210,000,000	540,000,000	613,512,209	(28,793)	1,363,483,416
Net income for the year	-	-	470,767,216	-	470,767,216
Other comprehensive loss for the year	-	-	-	(12,340)	(12,340)
Total comprehensive income (loss)	-	-	470,767,216	(12,340)	470,754,876
Stock issuance	540,000,000	(540,000,000)	-	-	-
Cash dividends declared during the year	-	-	(100,000,000)	-	(100,000,000)
Transactions with owners	540,000,000	(540,000,000)	(100,000,000)	-	(100,000,000)
As at December 31, 2017	P750,000,000	P -	P984,279,425	(P41,133)	P1,734,238,292

See Notes to the Financial Statements.

**MONTOSCO, INC.**  
**(A Wholly-owned Subsidiary of Cosco Capital, Inc.)**  
**STATEMENTS OF CASH FLOWS**

		Years Ended December 31	
	Note	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax		P641,575,372	P501,925,926
Adjustments for:			
Interest expense	11, 12	7,749,094	12,335,226
Unrealized foreign exchange loss (gain) - net		3,047,788	(2,539,807)
Depreciation and amortization	8	2,793,476	1,850,926
Retirement benefits costs	16	345,565	1,163,863
Interest income	4	(781,573)	(349,956)
Operating income before working capital changes		654,729,722	514,386,178
Decrease (increase) in:			
Trade and other receivables		(202,602,216)	(135,961,135)
Inventories		212,561,049	137,540,203
Prepaid expenses and other current assets		(337,927,097)	(71,258,225)
Refundable deposits		1,197,276	(1,516,990)
Increase (decrease) in trade and other payables		(425,456,548)	470,935,642
Cash generated from (absorbed by) operations		(97,497,814)	914,125,673
Income taxes paid		(206,574,950)	(104,720,277)
Interest paid		(6,808,362)	(10,978,466)
Interest received		781,573	349,956
Net cash provided by (used in) operating activities		(310,099,553)	798,776,886
<b>CASH FLOWS FROM AN INVESTING ACTIVITY</b>			
Additions to property and equipment	8	(2,402,268)	(5,367,691)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Payments to:			
Advances from Parent Company		(290,000,000)	(486,297,220)
Notes payable		(175,000,000)	(239,000,000)
Cash dividends paid		-	(50,000,000)
Proceeds from availment of notes payable		700,000,000	175,000,000
Net cash provided by (used in) financing activities		235,000,000	(600,297,220)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>			
		8,007	32,030
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		(77,493,814)	193,144,005
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		341,419,540	148,275,535
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		P263,925,726	P341,419,540

See Notes to the Financial Statements



**MONTOSCO, INC.**  
**(A Wholly-owned Subsidiary of Cosco Capital, Inc.)**

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**NOTES TO THE FINANCIAL STATEMENTS**

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**1. Reporting Entity**

Montosco, Inc. (the "Company") was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on August 13, 2008. The principal activity of the Company is to engage in the business of trading consumer goods on wholesale or retail basis. The Company started its commercial operations on June 1, 2011.

The Company is a wholly-owned subsidiary of Cosco Capital, Inc. ("Cosco" or "Parent Company"), a company incorporated in the Philippines. Cosco's shares of stock are listed for trading at the Philippine Stock Exchange (PSE).

The Company's registered office address is at the 1501 Federal Tower, Dasmarinas Street, Binondo, Manila.

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**2. Basis of Preparation**

Statement of Compliance

The financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). PFRS which are issued by the Philippine Financial Reporting Standards Council (FRSC), consist of PFRS, Philippine Accounting Standards (PAS), and Philippine Interpretations based on the International Financial Reporting Interpretations Committee (IFRIC) interpretations.

The accompanying financial statements as at and for the year ended December 31, 2017 and 2016 of the Company were approved and authorized for issue by the Board of Directors (BOD) on April 26, 2018.

Basis of Measurement

The financial statements have been prepared on the historical cost basis of accounting.

Functional and Presentation Currency

The financial statements are measured using the currency of the primary economic environment in which the Company operates. The financial statements are presented in Philippine peso, which is also the Company's functional currency. All amounts are rounded to the nearest peso, except when otherwise indicated.

Management's Use of Significant Judgments, Estimates and Assumptions

The Company's financial statements prepared in accordance with PFRS require management to exercise judgments, make accounting estimates and use assumptions that affect the application of accounting policies and the amounts reported in the financial statements at the reporting date. However, uncertainty about these estimates and assumptions could result in an outcome that could require a material adjustment to the carrying amount of the affected asset or liability in the future.



Judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions are recognized in the period in which the judgments and estimates are revised and in any future period affected.

#### Judgments

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

#### *Determination of the Company's Functional Currency*

The Company considers factors, including but not limited to, the currency that mainly influences sales prices of its goods and costs of its products. Based on the economic substance of the underlying circumstances relevant to the Company, the functional currency has been determined to be the Philippine peso. It is the currency that mainly influences the Company's operations.

#### *Operating Lease - Company as a Lessee*

The Company entered into various lease agreements for its office space and warehouses as a lessee. The Company has determined that the lessors retain all significant risks and rewards of ownership of these properties which are accounted for under operating leases.

Rent expense recognized in the profit or loss amounted to P15,354,658 and P16,484,343 in 2017 and 2016, respectively (see Note 15).

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

The Company assesses, at the end of each reporting period, whether there is any indication that its non-financial assets which pertain to property and equipment are impaired. If any such indication exists, the Company estimates the recoverable amount of these assets. Determining the fair value of these non-financial asset which requires the determination of the future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Company to make estimates and assumptions that can materially affect the financial statements. Future events could cause management to conclude that these assets are impaired. Any resulting impairment loss could have a material adverse impact on the Company's financial position and financial performance. The preparation of the estimated future cash flows involves significant judgment and estimations. While management believes that the assumptions made are appropriate and reasonable, significant changes in management assumptions may materially affect the assessment of recoverable values and may lead to future additional impairment charges under PFRS.

No impairment loss was recognized in 2017 and 2016 for the non-financial assets. The carrying amount of property and equipment as at December 31, 2017 and 2016 amounted to P5,096,872 and P5,488,080 as at December 31, 2017 and 2016, respectively (see Note 8).

#### Accounting Estimates and Assumptions

The key estimates and assumptions used in the financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the financial statements. Actual results could differ from such estimates.

#### *Allowance for Impairment Losses on Receivables*

The Company maintains an allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. The level of this provision is evaluated by management 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 debtors, their payment behavior and known market factors. The Company reviews the age and status of receivables, and identified accounts that are to be provided with allowance on a regular basis. 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 would increase the Company's recorded operating expenses and decrease current assets.

The carrying amount of receivables amounted to P1,053,351,711 and P853,925,392 as at December 31, 2017 and 2016, respectively (see Note 5).

Based on evaluation made by the management, no impairment indicator was noted on the Company's receivables in 2017 and 2016.

#### *Determination of Net Realizable Value (NRV) of Inventories*

The Company's estimates of the NRV of inventories are based on the most reliable evidence available at the time the estimates are made, of the amount that the inventories are expected to be realized. These estimates consider the inventory obsolescence, physical deterioration, fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. A new assessment is made at NRV in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is a clear evidence of an increase in NRV because of changes in economic circumstances, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised NRV.

Management assessed that no allowance to write-down inventories to NRV was necessary as at December 31, 2017 and 2016. The cost of inventories amounted to P1,262,556,953 and P1,475,118,002 as at December 31, 2017 and 2016, respectively (see Note 6).

#### *Evaluating Useful Lives of Property and Equipment*

The Company estimates the useful lives of property and equipment based on the period over which these 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 asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible that future financial performance could be materially affected by changes in these estimates brought about by changes in the factors mentioned. Any reduction in the estimated useful lives of the property and equipment would increase depreciation and amortization expense and decrease noncurrent assets.

The estimated useful lives of property and equipment are discussed in Note 3 to the financial statements. There is no change in the estimated useful lives of property and equipment in 2017 and 2016.

The carrying amount of property and equipment amounted to P5,096,872 and P5,488,080 as at December 31, 2017 and 2016, respectively (see Note 8).

*Estimation of Retirement Benefits Liability and Expense*

The cost of defined benefits retirement plans, as well as the present value of the retirement obligation, is determined using actuarial valuations. The actuarial valuations involves making various assumptions. These include the determination of the discount rates, expected rates of return of assets, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefits obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting period.

The Company has retirement benefits liability amounting to P1,550,561 and P1,204,996 as at December 31, 2017 and 2016, respectively (see Note 16).

*Recognition of Deferred Income Tax Assets*

The Company reviews its deferred income tax assets at each reporting date and reduces the carrying amount to the extent that is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. The Company also reviews the expected timing and tax rates upon reversal of temporary differences and adjusts the impact on deferred income tax accordingly. The Company's assessment on the recognition of deferred income tax assets is based on the forecasted taxable income of the subsequent reporting periods. This forecast is based on the Company's past results and future expectations on revenues and expenses. While the Company believes that its assumptions are appropriate and reasonable, significant changes in these assumptions may materially affect the Company's assessment of the realizability of deferred income tax assets and may lead to future addition to the provision for deferred income tax.

The Company has recognized deferred income tax assets arising from retirement benefits liability amounting to P361,499 as at December 31, 2016 (see Note 17).

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### **3. Summary of Significant Accounting Policies and Financial Reporting Practices**

The accounting policies set out below have been applied consistently to all years presented in these financial statements, except for the changes in accounting policies as explained below.

Adoption of Amendments to Standards

The Company has adopted the following relevant and applicable amendments to standards starting January 1, 2017 and accordingly, changed its accounting policies.

- *Disclosure Initiative (Amendments to PAS 7, Statement of Cash Flows)*. The amendments address financial statements users' requests for improved disclosures about an entity's net debt relevant to understanding an entity's cash flows. The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes - e.g. by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

The Company provided a reconciliation between the opening and closing balances for liabilities arising from financing activities (see Note 20).

- *Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to PAS 12 Income Taxes)*. The amendments clarify that:
  - the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset;
  - the calculation of future taxable profit in evaluating whether sufficient taxable profit will be available in future periods excludes tax deductions resulting from the reversal of the deductible temporary differences;
  - the estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and
  - an entity assesses a deductible temporary difference related to unrealized losses in combination with all of its other deductible temporary differences, unless a tax law restricts the utilization of losses to deduction against income of a specific type.

The following interpretations and amendments to standards are not expected to have impact on the Company's financial statements:

- Annual Improvements to PFRSs 2014 - 2016 Cycle - Clarification of the scope of the standard (*Amendments to PFRS 12, Disclosure of Interests in Other Entities*).

**New Standards and Interpretations and Amendments to Standards Not Yet Adopted**

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2017. However, the Company has not applied the following relevant and applicable new or amended standards in preparing these financial statements.

*Effective January 1, 2018*

- *PFRS 9, Financial Instruments (2014)*. PFRS 9 (2014) replaces PAS 39, *Financial Instruments: Recognition and Measurement* and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). PFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, guidance on own credit risk on financial liabilities measured at fair value and supplements the new general hedge accounting requirements published in 2013. PFRS 9 incorporates new hedge accounting requirements that represent a major overhaul of hedge accounting and introduces significant improvements by aligning the accounting more closely with risk management.

The new standard is to be applied retrospectively for annual periods beginning on or after January 1, 2018 with early adoption permitted.

The adoption of PFRS 9 will have no significant impact on the classification and measurement of the Company's financial assets and financial liabilities at January 1, 2018. Further, future adoption of the new hedge accounting requirements will have no effect on the Company's financial statements since the Company has no transactions eligible for hedge accounting. However, the adoption will have an effect on the amount of the Company's credit losses. The management has not yet fully assessed the financial impact of these changes as of date.

- *PFRS 15, Revenue from Contracts with Customers* replaces PAS 11 *Construction Contracts*, PAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 18 *Transfer of Assets from Customers* and SIC-31, *Revenue - Barter Transactions Involving Advertising Services*. The new standard introduces a new revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) a company transfers control of goods or services to a customer at the amount to which the company expects to be entitled. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the company's performance, or at a point in time, when control of the goods or services is transferred to the customer. The standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other PFRS. It also does not apply if two companies in the same line of business exchange nonmonetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another PFRS, then the guidance on separation and measurement contained in the other PFRS takes precedence.

The new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

The Company has an ongoing assessment of the application of PFRS 15 on the Company's financial statements.

- *Philippine Interpretation IFRIC-22 Foreign Currency Transactions and Advance Consideration*. The interpretation clarifies that the transaction date to be used for translation for foreign currency transactions involving an advance payment or receipt is the date on which the entity initially recognizes the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. The interpretation applies when an entity pays or receives consideration in a foreign currency and recognizes a non-monetary asset or liability before recognizing the related item.

The interpretation is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

The Company has an ongoing assessment of the application of IFRIC 22 on the Company's financial statements.

Effective January 1, 2019

- *PFRS 16, Leases* supersedes *PAS 17 Leases* and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements. Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were introduced.

PFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply PFRS 15 *Revenue from Contracts with Customers* at or before the date of initial application of PFRS 16.

Future adoption of the standards will result in the recognition of the right-of-use of asset, lease liability and additional disclosures. Management is still evaluating the financial impact of the new standard on the Company's financial statements as of the reporting period.

- *Philippine Interpretation IFRIC-23 Uncertainty over Income Tax Treatments* clarifies how to apply the recognition and measurement requirements in *PAS 12 Income Taxes* when there is uncertainty over income tax treatments. Under the interpretation, whether the amounts recorded in the financial statements will differ to that in the tax return, and whether the uncertainty is disclosed or reflected in the measurement, depends on whether it is probable that the tax authority will accept the Company's chosen tax treatment. If it is not probable that the tax authority will accept the Company's chosen tax treatment, the uncertainty is reflected using the measure that provides the better prediction of the resolution of the uncertainty - either the most likely amount or the expected value. The interpretation also requires the reassessment of judgements and estimates applied if facts and circumstances change - e.g. as a result of examination or action by tax authorities, following changes in tax rules or when a tax authority's right to challenge a treatment expires.

The interpretation is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted.

The following interpretations to standards are not expected to have impact on the Company's financial statements:

- *Transfers of Investment Property (Amendments to PAS 40, Investment Property)*;
- *Classification and Measurement of Share-based Payment Transactions (Amendments to PFRS 2, Share-based Payment)*;
- *Applying PFRS 9 with PFRS 4, Insurance Contracts (Amendments to PFRS 4)*;
- Annual Improvements to PFRS 2014 - 2016 Cycle:
  - Amendment to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards* - Deletion of short-term exemptions for first-time adopters; and
  - Amendment to PAS 28, *Investments in Associates and Joint Ventures* - Measuring an associate or joint venture at fair value;

- Prepayment Features with Negative Compensation (Amendments to PFRS 9); and
- Long-term Interests in Associates and Joint Ventures (Amendments to PAS 28).

#### Financial Instruments

##### *Date of recognition*

The Company recognizes a financial asset or a financial liability in the statements of financial position when it becomes a party to the contractual provisions of the instrument. Purchases and sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

##### *Initial recognition and classification of financial instruments*

Financial instruments are recognized initially at fair value. The initial measurement of financial instruments, except for those classified as financial assets at fair value through profit or loss (FVPL), includes transaction costs.

On initial recognition, the Company classifies its financial assets in the following categories: financial assets at FVPL, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. Financial liabilities on the other hand, are classified into the following categories: financial liabilities at FVPL and other financial liabilities. Management determines the classification of its financial assets and financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at each reporting date.

Financial instruments are classified as liability 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 reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

As at December 31, 2017 and 2016, the Company's financial assets and financial liabilities consist of cash and cash equivalents, loans and receivables, and other financial liabilities.

##### *'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 from observable 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 the recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the 'Day 1' difference amount.



#### *Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivables. After initial measurement, loans and receivables are subsequently carried at cost or amortized cost using the effective interest method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process. Loans and receivables are classified as current assets if maturity is within 12 months from the balance sheet date or the normal operating cycle, whichever is longer. Otherwise, these are classified as noncurrent assets.

Cash includes cash on hand and in banks which are stated at face value. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of up to three months or less from dates of acquisition and are subject to an insignificant risk of change in value.

As at December 31, 2017 and 2016, the Company's loans and receivables include cash in banks and cash equivalents, trade and other receivables and refundable deposits.

#### *Other Financial Liabilities*

This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. These include liabilities arising from operations or borrowings (e.g., payables, accruals). Other financial liabilities are initially recognized at fair value, plus directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the amortization process. Financial liabilities are classified as current, except for maturities greater than twelve months after the reporting date. These are classified as noncurrent liabilities.

As at December 31, 2017 and 2016, the Company's other financial liabilities include trade and other payables (excluding statutory obligations), notes payable, dividends payable and advances from Parent Company.

#### Impairment of Financial Assets

The Company assesses at each reporting date whether a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the contracted parties or group of contracted parties is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

#### *Loans and Receivables*

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant or collectively for financial assets that are not individually significant. If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of loss is measured as a 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 shall be reduced through the use of an allowance account, and the amount of the loss shall be recognized in profit or loss.

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 group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

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 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 amount of the asset does not exceed its amortized cost at the reversal date.

#### Derecognition of Financial Assets and Financial Liabilities

##### *Financial Assets*

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

- the rights to receive cash flows from the asset have expired;
- 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 rewards of the asset; or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Company has transferred its right to receive cash flows from an asset or has entered into a "pass-through" arrangement, and has neither transferred nor retained substantially all the risks and rewards 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 is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

##### *Financial Liabilities*

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired.

Where 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 Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the statements 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. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statements of financial position.

#### Fair Value Measurement

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 measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to the Company.

The fair value of an asset or a liability is measured using the assumptions that the market participants would use when pricing the asset or liability, assuming that the market participants act in their economic best interest.

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 prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, or either directly or indirectly, and or liability.
- Level 3 - Inputs for the asset or liability that are based on observable market data.

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 reassessing 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.

As at December 31, 2017 and 2016, no financial asset or liability was recognized at fair value. The Company has no other assets or liabilities with recurring and non-recurring fair value measurements.

### Inventories

Inventories, which consist of wines and spirits, are valued at the lower of cost and net realizable value (NRV). Cost is comprised of purchase price, expenditure incurred in acquiring the inventories and other costs incurred in bringing them to their present location and condition. Cost is determined using the first-in, first-out method.

NRV represents the estimated selling price less costs to be incurred in marketing, selling and distribution. In determining the NRV, the Company considers any adjustment necessary to write-down inventories to NRV for slow-moving and near expiry products based on physical inspection and management evaluation.

### Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization and any impairment in value. The initial cost of items of property and equipment consists of its purchase price, including import duties and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to profit or loss in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of the item of property and equipment.

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

	Number of Years
Transportation and delivery equipment	5
Leasehold improvements	3 or lease term, whichever is shorter
Furniture and fixtures	2
Office equipment	2

Depreciation and amortization of an item of property and equipment begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation or amortization ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, and the date the asset is derecognized.

The estimated useful lives and depreciation and amortization method are reviewed periodically to ensure that the periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation is recognized in the profit or loss. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and any impairment in value are removed from the accounts and any resulting gain or loss is recognized in profit or loss.

#### Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. The capitalization of borrowing costs: (i) commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred; (ii) is suspended during the extended periods in which active development, improvement and construction of the assets are interrupted; and (iii) ceases when substantially all the activities necessary to prepare the assets are completed. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds.

Other borrowing costs are recognized as expense in the period in which they are incurred.

#### Impairment of Non-financial Assets

The Company assesses, at end of each reporting period, whether there is indication that its non-financial assets which is property and equipment, may be impaired. If any such indication exists and where the carrying amount exceeds the estimated recoverable amount, the assets or the cash generating unit (CGU) are written down to their recoverable amounts. The recoverable amount of the non-financial assets is the greater of fair value less cost to sell and value-in-use. The fair value less cost to sell is the price that would be received to sell an asset in an ordinary transaction between market participants less cost to sell. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs. Impairment losses, if any, are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The increase amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation and amortization charge are adjusted in future periods to allocate the asset's revised carrying amount on a systemic basis over its remaining useful life.

#### Capital Stock

Common stock is classified as equity. The proceeds from the issuance of common stock are presented in equity as capital stock to the extent of the par value of the issued and outstanding shares.

#### Retained Earnings

Retained earnings represent the cumulative balance of periodic net income or loss, dividend contributions, correction of prior year errors, effect of changes in accounting policy and other capital adjustments.

#### Dividends on Common Stock

Cash dividends on common stock are recognized as liability and deducted from equity when approved by the BOD of the Company. Stock dividends are distribution of earnings in the form of Company shares. When the stock dividends are declared, the amount of stock dividends are treated as transfers from retained earnings to common stock.

Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date.

#### 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 revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

##### *Sales of Goods*

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of value-added tax (VAT), returns, discounts, and rebates. Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing involvement with the goods. Transfer of risks and rewards of ownership coincide with the delivery of the products to the customers, under normal credit terms.

##### *Interest Income*

Interest income is recognized as it accrues, taking into account the effective yield on the asset.

##### *Commission Income*

Commission income is recognized as income at the same time as the costs are incurred which generally coincides upon performance of service.

#### Cost and Expense Recognition

Cost of goods sold is recognized when goods are shipped to the buyer. Expenses are recognized upon utilization of services or at the date they are incurred.

Expenses are also recognized when a decrease in future economic benefit related to a decrease in an asset or an increase in a liability that can be measured reliably has arisen. Expenses are recognized on the basis of a direct association between costs incurred and the earning of specific items of income; on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or immediately when an expenditure produces no future economic benefits or when, and to the extent that future economic benefits do not qualify, or cease to qualify, for recognition as an asset.

#### Employee Benefits

##### *Short-term Employee Benefits*

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of the past service provided by the employee and the obligation can be estimated reliably.

#### *Retirement Benefits Liability and Cost*

The Company has an unfunded, noncontributory defined benefits retirement plan covering substantially all permanent, regular, full-time employees. The Company's obligation in respect of the defined benefits is calculated by estimating the amount of the future benefits that employees have earned in the current and prior periods, discounting that amount.

The calculation of defined benefits obligations is performed on a periodic basis by a qualified actuary using the projected unit credit method.

Remeasurements of the retirement benefits liability, which comprise of actuarial gains and losses, are recognized immediately in other comprehensive income. Such remeasurement are also immediately recognized in equity under "Accumulated remeasurements on retirement benefits". The Company determines the net interest expense on the retirement benefits liability for the period by applying the discount rate used to measure the defined benefits obligation at the beginning of the annual period to the then retirement benefits liability, taking into account any changes in the retirement benefits liability during the period as a result of benefit payments, if any. Interest expense and other expenses related to defined benefits plans are recognized in profit or loss.

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

#### Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after the inception of 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 an extension is 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 specific asset; or
- (d) there is a substantial change to the asset.

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

#### *Company as Lessee*

Leases where the lessors retain substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in the profit or loss on a straight-line basis over the lease term. Associated costs such as maintenance and insurance are expensed as incurred.



## Income Taxes

### *Current Income Tax*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used as basis to compute the amount are those that have been enacted or substantively enacted at the reporting date.

### *Deferred Income Tax*

Deferred income tax is provided, using the balance sheet liability method, 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 income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary can be utilized.

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

Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

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

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

### Value-added Tax (VAT)

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

- where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of VAT included.

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of "Prepaid expenses and other current assets" or "Trade and other payables" in the statements of financial position.

#### Related Party Transactions and Relationships

Related party relationships exist when the party has the ability to control, directly or indirectly, through one or more intermediaries, or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting entity and its key management personnel, directors or stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely to the legal form. Related parties may be individual or corporate entities.

#### Foreign Currency Transactions and Translation

Transactions in currencies other than Philippine peso are recorded at the rates of exchange prevailing on the dates of the transactions. Outstanding monetary assets and liabilities denominated in foreign currencies are translated using the closing exchange rate at the reporting date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

#### Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of the provision to be reimbursed, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss, net of reimbursement. If the effect of the time value of money is material, provisions are discounted using the current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

#### Contingencies

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

#### Events After the Reporting Date

Post year-end events that provide additional information about the Company's position at the reporting date (adjusting events) are recognized in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

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#### 4. Cash and Cash Equivalents

This account consists of:

	<b>Note</b>	<b>2017</b>	<b>2016</b>
Cash on hand		<b>P416,000</b>	P406,800
Cash in banks	18	<b>263,509,726</b>	176,012,740
Cash equivalents	18	-	165,000,000
		<b>P263,925,726</b>	P341,419,540

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Cash in banks earns interest at the respective bank deposit rates. Cash equivalents are money market placements made for varying period up to three months, and earn interest at the respective money market placement rate of 1.9% in 2017 and 2016.

Interest income recognized in profit or loss amounted to P781,573 and P349,956 in 2017 and 2016, respectively.

## 5. Trade and Other Receivables

This account consists of:

	<i>Note</i>	2017	2016
Trade			
Third parties		<b>P765,425,643</b>	P729,945,140
Related parties	12a	<b>284,419,163</b>	116,338,022
Non-trade		<b>808,890</b>	7,636,207
Others		<b>2,698,015</b>	6,023
	18	<b>P1,053,351,711</b>	P853,925,392

Trade receivables are non-interest-bearing and are generally on a 30 to 90-day credit term.

Non-trade receivables pertain to receivables from suppliers for the reimbursements of expenses made by the Company for brand promotions. These are non-interest-bearing and are generally on a 30-day credit term.

There was no allowance for impairment losses on receivables as at December 31, 2017 and 2016.

## 6. Inventories

This account consists of:

	<i>Note</i>	2017	2016
At cost:			
Spirits		<b>P1,185,079,637</b>	P1,437,358,278
Wines		<b>76,443,123</b>	35,786,557
Water		<b>1,034,193</b>	1,973,167
	14	<b>P1,262,556,953</b>	P1,475,118,002

Cost of goods sold recognized in profit or loss amounted to P2,767,822,893 and P2,373,019,245 in 2017 and 2016, respectively (see Note 14).

## 7. Prepaid Expenses and Other Current Assets

This account consists of:

	2017	2016
Advances to suppliers	P238,290,465	P73,521,051
Prepaid expenses:		
Duties and taxes	188,806,480	15,041,788
Other import charges	137,703	5,512
Others	68,300	807,500
	<b>P427,302,948</b>	<b>P89,375,851</b>

Advances to suppliers pertain to partial downpayment made by the Company to suppliers which will be applied against future billings.

## 8. Property and Equipment

The movements and balances in this account are as follows:

	Transportation and Delivery Equipment	Leasehold Improvements	Office Equipment	Furniture and Fixtures	Total
<b>Cost</b>					
December 31, 2015	P2,401,843	P181,200	P980,422	P1,654,372	P5,197,837
Additions	2,785,714	2,134,029	342,892	105,056	5,367,691
December 31, 2016	5,187,557	2,295,229	1,323,314	1,759,428	10,565,528
Additions	2,201,786	-	200,482	-	2,402,268
December 31, 2017	<b>7,389,343</b>	<b>2,295,229</b>	<b>1,523,796</b>	<b>1,759,428</b>	<b>12,967,796</b>
<b>Accumulated Depreciation and Amortization</b>					
December 31, 2015	1,562,411	12,979	563,288	1,087,844	3,226,522
Depreciation and amortization	474,163	586,517	434,476	355,770	1,850,926
December 31, 2016	2,036,574	599,498	997,764	1,443,614	5,077,448
Depreciation and amortization	1,382,070	791,564	337,176	262,696	2,793,476
December 31, 2017	<b>3,418,644</b>	<b>1,391,060</b>	<b>1,334,940</b>	<b>1,726,280</b>	<b>7,870,924</b>
<b>Net Book Value</b>					
December 31, 2016	P3,150,983	P1,695,733	P325,550	P315,814	P5,488,080
December 31, 2017	<b>P3,970,699</b>	<b>P904,169</b>	<b>P188,856</b>	<b>P33,148</b>	<b>P5,096,872</b>

Depreciation and amortization expense for the years ended December 31, 2017 and 2016 were charged as part of Operating Expenses.

## 9. Refundable Deposits

This account consists of:

	Note	2017	2016
Security deposits	15	P1,914,634	P3,168,359
Others		122,819	66,370
	18	<b>P2,037,453</b>	<b>P3,234,729</b>

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## 10. Trade and Other Payables

This account consists of:

	<i>Note</i>	2017	2016
Trade	18	P106,781,808	P448,960,525
Accrued expenses	18	29,663,434	13,079,891
Non-trade	18	24,167,746	120,080,653
Output VAT - net		20,741,783	14,506,988
Statutory obligations		2,102,453	11,373,481
Others	18	260,789	352,393
		<b>P183,718,013</b>	<b>P608,353,931</b>

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Trade payables are non-interest-bearing and are generally on a 30 to 60-day payment term.

Accrued expenses consist of accruals for interest, utilities, advertisement and other operating expenses.

Non-trade payables are amounts owed to non-trade suppliers such as manpower agencies, freight companies and other non-trade payment transactions. These are non-interest bearing and are generally on a 30-day payment term.

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## 11. Notes Payable

This account pertains to unsecured, peso-denominated short-term notes from various local banks with maturities of less than one (1) year and bear fixed annual interests of 2.13% and 2.38% in 2017 and 2016. These loans were intended for the Company's working capital requirements to finance inventory purchases.

Interest expense recognized in profit or loss relating to notes payable amounted to P1,791,094 and P4,205,228 for the years ended December 31, 2017 and 2016, respectively.

## 12. Related Party Transactions

Transactions and account balances with related parties as at and for the years ended December 31 are as follows:

Category/ Transaction	Year	Ref	Transactions During the Year	Outstanding Balance		Terms	Conditions
				Receivable	Payable		
<b>Parent Company</b>							
• Advances	2017	12c	P -	P -	P234,000,000	Payable on demand on the second year from the date of receipt	Unsecured
	2016	12c	234,000,000	-	524,000,000		
• Interest expense	2017	10, 12c	5,958,000	-	-	Annual interest at 1.8%, payable on a monthly basis	
	2016	10, 12c	11,478,417	-	-		
• Management fee	2017	12d	-	-	-	Due and demandable	Unsecured
	2016	12d	70,000,000	-	67,900,000		
• Dividends	2017	13	100,000,000	-	100,000,000	Due and demandable	Unsecured
	2016	13	540,000,000	-	540,000,000		
<b>Entities under Common Control</b>							
• Sales of goods	2017	5, 12a	952,094,114	284,419,163	-	30 days Credit term, non-interest bearing	Unsecured; no impairment
	2016	5, 12a	587,280,749	116,338,022	-		
• Rent expense	2017	12b	11,133,409	-	-	Demandable, non-interest bearing	Unsecured
	2016	12b	11,097,890	-	926,220		
• Others	2017		-	-	-	Due and demandable	Unsecured
	2016		162,401	-	162,401		
<b>2017</b>				<b>P284,419,163</b>	<b>P334,000,000</b>		
<b>2016</b>				<b>P116,338,022</b>	<b>P1,132,988,621</b>		

- In the normal course of business, the Company distributes wines, liquors and water to entities under common control.
- The Company entered into lease agreements with an entity under common control for its office space and warehouse (see Notes 15a and 15c).
- The Company received cash advances from its Parent Company in a form of promissory notes. These advances earn fixed annual interest rate of 1.8% with maturities of two (2) years.
- The Company pays management fee to its Parent Company for the management consultancy and financial services by the Parent Company.

There is no key management compensation since the key management roles are functionally domiciled under Cosco.

Amounts owed by and owed to related parties are to be settled in cash.

## 13. Equity

### Capital Stock

The balances as at December 31, 2017 and 2016 are as follows:

	2017		2016	
	Number of Shares	Amount	Number of Shares	Amount
<b>Authorized</b>				
P100 par value	7,500,000	P750,000,000	2,100,000	P210,000,000
<b>Issued and outstanding</b>				
Balance at beginning of year	2,100,000	P210,000,000	2,100,000	P210,000,000
Stock issuances	5,400,000	540,000,000	-	-
<b>Balance at end of year</b>	<b>7,500,000</b>	<b>P750,000,000</b>	<b>2,100,000</b>	<b>P210,000,000</b>

Ordinary shares carry one vote per share and a right to dividends.

On December 8, 2016, the Company's BOD approved the increase in its authorized capital stock from P210.0 million divided into 2,100,000 shares of common stock to P750.0 million divided into 7,500,000 shares of common stock, both at P100 par value to accommodate the stock dividends declared as discussed below.

On July 5, 2017, the SEC approved the Company's increase in authorized capital stock. Upon approval of the increase in authorized capital stock, the stock dividends amounting to P540,000,000 were applied against the increase in authorized capital stock and the related shares were issued.

#### Declaration of Dividends

##### *Cash Dividends*

On November 28, 2017, the Company's BOD approved the declaration of cash dividends of P13.33 per share or an aggregate amount of P100,000,000, payable to stockholders of record as of the same date.

##### *Stock Dividends*

On December 8, 2016, the Company's BOD approved the declaration of stock P257.14 per share or an aggregated amount of dividends of P540,000,000, distributable to stockholders of record as of the same date. Accordingly, the stock dividends declared have been presented as stock dividends distributable in the equity section of the 2016 statement of financial position and statement of changes in equity.

Under the Philippine Corporation Code (the Code), stock corporations are prohibited from retaining surplus profits in excess of 100% of their paid-up capital stock except when justified by any of the reasons mentioned in the code.

As at December 31, 2017, the Company has excess retained earnings amounting to P234,279,425 over its paid-up capital amounting to P750,000,000. These retained earnings will be subjected to yearly cycle of capital structure review wherein management will determine the amount of cash dividends to be declared, subject to statutory approvals and clearances.

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#### **14. Cost of Goods Sold**

This account consists of:

	<i>Note</i>	<b>2017</b>	<b>2016</b>
Inventory at beginning of year		<b>P1,475,118,002</b>	P1,612,658,205
Net purchases		<b>2,555,261,844</b>	2,235,479,042
Total goods available for sale		<b>4,030,379,846</b>	3,848,137,247
Inventory at end of year	<b>6</b>	<b>1,262,556,953</b>	1,475,118,002
		<b>P2,767,822,893</b>	P2,373,019,245



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## 15. Lease Agreements

### Company as Lessee

- a. The Company entered into a lease agreement with an entity under common control for its office space with an area of 150.84 square meters. The lease is for a period of two (2) years until June 30, 2016. The lease was renewed for another 3 years until June 30, 2019. The lease has an annual escalation rate of 5%. Rent expense amounted to P731,643 and P693,051 in 2017 and 2016, respectively.
- b. The Company entered into a lease agreement with a third party for a warehouse with an area of 3,869 square meters. The lease is for a period of three (3) years commencing on November 1, 2014 until October 31, 2017. The lease agreement was not renewed.
- c. The Company entered into a lease agreement with an entity under common control for a warehouse with an area of 5,770.84 square meters. The lease is for a period of two (2) years commencing on January 1, 2016 until December 31, 2017, renewable upon mutual consent of both parties. Rent expense amounted to P10,387,512 in 2017 and 2016.

The lease payments provides for, among others, security deposits amounting to P1,914,634 and P3,168,359 as at December 31, 2017 and 2016, respectively, which are shown under "Refundable deposits " in the statements of financial position (see Note 9).

Total rent expense on the above-mentioned lease agreements recognized in profit or loss amounted to P15,354,658 and P16,484,343 in 2017 and 2016, respectively.

Future minimum lease under non-cancellable operating leases as at December 31 are as follows:

	2017	2016
Within one year	P749,340	P15,125,406
One year but not more than five years	383,808	1,243,256
	<b>P1,133,148</b>	<b>P16,368,662</b>

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## 16. Retirement Benefits Liability

The Company has an unfunded, noncontributory, defined benefits retirement plan covering all of its regular, full-time employees. Costs are determined in accordance with the actuarial studies made for the plan. Under the plan, the employees are entitled to retirement benefits equivalent to an amount computed based on Republic eAct No. 7641, *Retirement Pay Law*, equivalent to one-half month's salary for every year of service, with six months or more of service considered as one year.

Costs are determined in accordance with the actuarial studies made for the plan. Annual cost is determined using the projected unit credit method. The Company's latest actuarial valuation date is December 31, 2016.

The succeeding table summarize the components of retirement benefits cost under a defined benefits retirement plan recognized in profit or loss and the amount of retirement benefits liability recognized in the statements of financial position.

	2017	2016
<b>Balance at beginning of year</b>	<b>P1,204,996</b>	<b>P -</b>
<b>Recognized in profit or loss</b>		
Interest cost	64,829	42,374
Current service cost	280,736	280,736
Past service cost	-	840,753
	<b>345,565</b>	<b>1,163,863</b>
<b>Recognized in other comprehensive income</b>		
Actuarial loss (gain) arising from:		
Financial assumptions	-	(76,283)
Experience adjustments	-	117,416
	-	41,133
<b>Balance at end of year</b>	<b>P1,550,561</b>	<b>P1,204,996</b>

The retirement benefits costs is recognized as part of "Salaries and other employee benefits" under Operating Expenses in profit or loss.

The plan exposes the Company to actuarial risks such as interest rate risk, longevity risk and salary risk as follows:

*Interest Risk*

The present value of the defined benefits obligation is calculated using a discount rate determined by reference to market yields to government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation.

*Longevity and Salary Risks*

The present value of the defined obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

The principal actuarial assumptions (in percentages) used to determine retirement benefits in 2016 are as follows:

Discount rate	5.38%
Future salary increases	3.00%

Assumptions for mortality and disability rates are based on published statistics and mortality and disability tables.

The weighted average duration of defined benefits obligation is 18.31 years as at December 31, 2016.

As at December 31, the reasonably possible changes to one of the relevant actuarial assumptions, while holding all other assumptions constant, would have affected the defined benefits liability by the amounts below:

	2017		2016	
	Defined Benefit Liability		Defined Benefit Liability	
	1 Percent Increase	1 Percent Decrease	1 Percent Increase	1 Percent Decrease
Discount rate	(P98,926)	P67,915	(P194,287)	P241,871
Salary increase rate	62,022	(31,011)	231,511	(190,188)

Although the analysis does not take into account the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumption shown.

It should be noted that in the event a benefit claim arises under that plan, the benefits shall be due and payable from the Company.

*Funding Arrangements*

The plan is unfunded and noncontributory. Benefit claims under the defined benefits retirement obligation are paid directly by the Company when they become due.

*Asset-Liability Matching (ALM)*

The Company does not perform any ALM study. The Company has no plan assets to match against liabilities under the retirement obligation.

Maturity analysis of the benefit payments is as follows:

	December 31, 2016				
	Carrying Amount	Contractual Cash Flows	Within 1 Year	Within 1-5 Years	More than 5 Years
Retirement benefits liability	P1,204,996	P779,807	P -	P -	P779,807

**17. Income Taxes**

The components of provision for income tax are shown below:

	2017	2016
Current	P171,220,940	P150,261,646
Deferred	(412,784)	254,452
	P170,808,156	P150,516,098

In 2017, the Company opted to apply optional standard deduction (OSD) which is equivalent to 40% of total gross income.

The reconciliation of the provision for income tax computed at the statutory income tax rate and the provision for income tax shown in profit or loss for the years ended December 31 is as follows:

	2017	2016
Income before income tax	<b>P641,575,372</b>	P501,925,926
Provision for income tax at the statutory income tax rate of 30%	<b>P192,472,611</b>	P150,577,778
Additions to (reductions from) income taxes resulting to the tax effects of:		
Non-deductible expenses	92,368,150	43,307
Derecognition of deferred tax asset	349,159	-
Interest income subjected to final tax	(234,472)	(104,987)
Availment of optional standard deduction	<b>(114,147,292)</b>	-
	<b>P170,808,156</b>	P150,516,098

The components of the Company's net deferred income tax liability are as follows:

	2016
Unrealized foreign exchange gain - net	(P761,943)
Retirement benefits liability	361,499
	<b>(P400,444)</b>

The movements of net deferred income tax liability are accounted for as follows:

	2017	2016
Amount charged to profit or loss	<b>(P412,784)</b>	P254,452
Amount charged to OCI relating to remeasurement on defined benefits plan	<b>12,340</b>	(12,340)
Increase (decrease) in net deferred income tax liability	<b>(P400,444)</b>	P242,112

## 18. Financial Risk and Capital Management Objectives and Policies

### Objectives and Policies

The Company's BOD has overall responsibility for the establishment and oversight of the Company's risk management framework. The BOD has delegated to management the responsibility of developing and monitoring the Company's risk management policies.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The BOD oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

The Company has exposure to the following risks from its use of financial instruments:

- Credit Risk
- Liquidity Risk
- Market Risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risks, and the Company's management of capital.

The Company's overall risk management program seeks to minimize potential adverse effects on the financial performance of the Company. The policies for managing specific risks are summarized below:

#### Credit Risk

Credit risk represents the risk of loss the Company would incur if credit customers and counterparties fail to perform their contractual obligations. The Company's credit risk arises from the Company's use of its financial assets. Credit risk management involves entering into financial transactions only with counterparties with acceptable credit rating.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk as at December 31 is as follows:

	Note	2017	2016
Cash in banks and cash equivalents	4	P263,509,726	P341,012,740
Trade and other receivables	5	1,053,351,711	853,925,392
Refundable deposits	9	2,037,453	3,234,729
		<b>P1,318,898,890</b>	<b>P1,198,172,861</b>

As at December 31, 2017 and 2016, the aging per class of financial assets is as follows:

	Neither Past Due nor Impaired	December 31, 2017			Impaired	Total
		1 to 30 Days	31 to 120 Days	More than 120 Days		
Cash in banks cash equivalents	P263,509,726	P -	P -	P -	P -	P263,509,726
Trade and other receivables	833,065,992	184,336,352	35,949,367	-	-	1,053,351,711
Refundable deposits	2,037,453	-	-	-	-	2,037,453
	<b>P1,098,613,171</b>	<b>P184,336,352</b>	<b>P35,949,367</b>	<b>P -</b>	<b>P -</b>	<b>P1,318,898,890</b>

	Neither Past Due nor Impaired	December 31, 2016			Impaired	Total
		1 to 30 Days	31 to 120 Days	More than 120 Days		
Cash in banks cash equivalents	P341,012,740	P -	P -	P -	P -	P341,012,740
Trade and other receivables	832,478,983	11,019,713	6,469,141	1,957,555	-	853,925,392
Refundable deposits	3,234,729	-	-	-	-	3,234,729
	<b>P1,176,726,452</b>	<b>P11,019,713</b>	<b>P6,469,141</b>	<b>P1,957,555</b>	<b>P -</b>	<b>P1,198,172,861</b>

As at December 31, 2017 and 2016, no allowance for impairment losses on trade and other receivables was recognized.

Based on the historical default rates, the Company believes that, apart from above, no impairment allowance is necessary in respect of trade and other receivables that are past due but not impaired because such accounts relate to customers that have good payment records with the Company. On the other hand, the Company believes that no impairment loss is necessary in respect of other receivables since they are neither past due nor impaired.

The Company's policy is to enter into transactions with a diversity of credit worthy parties to mitigate any significant concentration of credit risk. There is no significant concentration of credit risk within the Company.

As at December 31, 2017 and 2016, the Company does not expect any counterparty, other than trade customers, to fail in meeting its obligations, thus, related risk is deemed to be insignificant.

*Credit Risk Concentration.* The Company's exposure to credit risk arises from default of counterparty. Generally, the maximum credit risk exposure of receivables is its carrying amount without considering collaterals or credit enhancements, if any. The Company has no significant concentration of credit risk since the Company deals with a large number of customers. The Company does not execute any credit guarantee in favor of any counterparty.

*Credit Quality.* In monitoring and controlling credit extended to counterparty, the Company adopts a comprehensive credit rating system based on financial and non-financial assessments of its customers. Financial factors being considered comprised of the financial standing of the customer while the non-financial aspects include but are not limited to the assessment of the customer's nature of business, management profile, industry background, payment habit and both present and potential business dealings with the Company.

The credit quality of the Company's financial assets as at December 31, 2017 and 2016 are as follows:

	December 31, 2017			Total
	High Grade	Standard Grade	Substandard Grade	
Cash in banks and cash equivalents	P263,925,726	P -	P -	P263,925,726
Trade and other receivables	-	1,040,914,689	12,437,022	1,053,351,711
Refundable deposits	-	2,037,453	-	2,037,453
<b>Total</b>	<b>P263,925,726</b>	<b>P1,042,952,142</b>	<b>P12,437,022</b>	<b>1,318,898,890</b>

	December 31, 2016			Total
	High Grade	Standard Grade	Substandard Grade	
Cash in banks and cash equivalents	P341,012,740	P -	P -	P341,012,740
Trade and other receivables	-	832,478,983	21,446,409	853,925,392
Refundable deposits	-	3,234,729	-	3,234,729
<b>Total</b>	<b>P341,012,740</b>	<b>P835,713,712</b>	<b>P21,446,409</b>	<b>P1,198,172,361</b>

High grade receivables pertain to those receivables from clients or customers that consistently pay before the maturity date. Standard grade receivables include those that are collected on their due dates event without an effort from the Company to follow them up. 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 meet its financial obligations as they fall due. The Company manages liquidity risk by maintaining a balance between continuity of funding and flexibility in operations. Treasury controls and procedures are in place to ensure that sufficient cash is maintained to cover daily operational and working capital requirements, as well as capital expenditures and debt service payments. Management closely monitors the Company's future and contingent obligations and sets up required cash reserves as necessary in accordance with internal requirements.

The following are contractual maturities of financial liabilities:

	As at December 31, 2017			
	Carrying Amount	Contractual Cash Flows	1 Year or Less	More than 1 Year
<b>Financial Liabilities</b>				
Trade and other payables*	P160,873,777	P160,873,777	P160,873,777	P -
Notes payable	700,000,000	706,412,847	706,412,847	-
Advances from Parent Company	234,000,000	238,212,000	238,212,000	-
Dividends payable	100,000,000	100,000,000	100,000,000	-
<b>Total</b>	<b>P1,194,873,777</b>	<b>P1,205,498,624</b>	<b>P1,205,498,624</b>	<b>P -</b>

\*Excluding statutory obligations and Output VAT.

	As at December 31, 2016			
	Carrying Amount	Contractual Cash Flows	1 Year or Less	More than 1 Year
<b>Financial Liabilities</b>				
Trade and other payables*	P582,473,462	P582,473,462	P582,473,462	P -
Notes payable	175,000,000	175,396,844	175,396,844	-
Advances from Parent Company	524,000,000	537,833,500	9,563,000	528,270,500
<b>Total</b>	<b>P1,281,473,462</b>	<b>P1,295,703,806</b>	<b>P767,433,306</b>	<b>P528,270,500</b>

\*Excluding statutory obligations and Output VAT.

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

#### Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and other market prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. The Company is subject to various risks, including foreign currency risk and interest rate risk.

#### Interest Rate Risk

The Company's interest rate risk management policy centers on reducing the Company's exposure to changes in interest rates. Exposure to changes in market interest rates relate primarily to the Company's cash in banks and notes payable.



As at December 31, 2017 and 2016, the interest rate profile of the Company's interest-bearing financial instruments is as follows:

	Note	2017	2016
<b>Fixed Rate Financial Instruments</b>			
<i>Financial Asset</i>			
Cash in banks	5	P263,509,726	P176,012,740
<i>Financial Liabilities</i>			
Advances from Parent Company	13c	(234,000,000)	(524,000,000)
Notes payable	12	(700,000,000)	(175,000,000)
		(934,000,000)	(699,000,000)
		(P670,490,274)	(P522,987,260)

The Company does not account for any fixed rate financial assets and financial liabilities at FVPL. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

#### *Foreign Currency Risk*

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's exposure to foreign currency risk relates primarily to the Company's foreign currency-denominated monetary assets and liabilities. The currencies in which these transactions are primarily denominated are United States dollar (USD), Singaporean dollar (SGD) and Euro (EUR).

The following table shows the Company's foreign currency-denominated monetary assets and liabilities and their Philippine peso (PHP) equivalents as at December 31:

	December 31, 2017			
	USD	SGD	EUR	PHP Equivalent
<b>Foreign currency - denominated monetary assets</b>				
Cash	206,431	-	-	10,307,120
Trade receivables	3,289,798	-	-	164,259,589
	3,496,229	-	-	174,566,709
<b>Foreign currency - denominated monetary liabilities</b>				
Trade payable	-	35,406	466,798	29,148,710
Net foreign currency - denominated monetary assets (liabilities)	3,496,229	(35,406)	(466,798)	145,417,999
	December 31, 2016			
	USD	SGD	EUR	PHP Equivalent
<b>Foreign currency - denominated monetary assets</b>				
Cash	795,866	-	-	39,644,478
Trade receivables	1,902,890	-	-	94,788,655
	2,698,756	-	-	134,433,133
<b>Foreign currency - denominated monetary liabilities</b>				
Trade payable	-	51,417	1,679,588	88,836,883
Net foreign currency - denominated monetary assets (liabilities)	2,698,756	(51,417)	(1,679,588)	45,596,250

In translating the foreign currency-denominated monetary assets and liabilities into Philippine peso amounts, the significant exchange rates applied are as follows:

	2017	2016
USD	49.93	49.81
SGD	37.32	34.35
EUR	59.61	51.84

The following table demonstrates sensitivity of cash flows due to changes in foreign exchange rates with all variables held constant.

	December 31, 2017	
	Percentage Increase in Foreign Exchange Rates	Effect in income before Income Tax
USD	5%	P6,109,835 increase
SGD	7%	64,751 decrease
EUR	9%	1,753,117 decrease

	December 31, 2016	
	Percentage Increase in Foreign Exchange Rates	Effect in income before Income Tax
USD	1%	P941,032 increase
SGD	5%	61,823 decrease
EUR	3%	1,828,481 decrease

Changes in foreign exchange rates are based on the average of the banks' forecasted closing exchange rates during the first quarter of the following calendar year. A movement in the opposite direction would increase/decrease income before income tax by the same amount, on the basis that all other variables remains constant.

#### Capital Risk Management

The Company's objectives, when managing capital, are to increase the value of stockholders' investment and maintain high growth by applying free cash flows to selective investments that would further the Company's worth. The Company sets strategies with the objective of establishing a versatile and resourceful financial management and capital structure.

The Company defines capital as paid-in capital stock and retained earnings.

There were no changes in the Company's approach to capital management during the year.

The Chief Financial Officer has the overall responsibility for monitoring of capital in proportion to risk. Profiles for capital ratios are set in the light of changes in the Company's external environment and the risks underlying the Company's business operations and industry.

The Company is not subject to externally-imposed capital requirements.

## 19. Fair Values of Financial Instruments

*Cash and Cash Equivalents, Trade and Other Receivables, Trade and Other Payables, Notes Payable and Dividends Payable*

The carrying amounts approximate fair values primarily due to the relatively short-term maturities of these financial instruments.

*Refundable Deposits and Advances from Parent Company*

The carrying amount of refundable deposit approximates its fair values as the impact of discounting is not significant.

## 20. Reconciliation of Movements of Liabilities to Cash Flows Arising from Financing Activities

The reconciliation of movements of liabilities to cash flows arising from financing activities in 2017 are as follow:

	Notes Payable	Accrued Interests	Advances from a Related Party	Dividends Payable	Total
Balance at beginning of year	P175,000,000	P -	524,000,000	P -	P699,000,000
Cash flow from financing activities					
Proceeds from availment of notes payable	700,000,000	-	-	-	700,000,000
Payment of principal	(175,000,000)	-	(290,000,000)	-	(465,000,000)
Interest expense	-	7,749,094	-	-	7,749,094
Interest paid	-	(6,808,362)	-	-	(6,808,362)
Dividends paid	-	-	-	100,000,000	100,000,000
	525,000,000	940,732	(290,000,000)	100,000,000	335,940,732
Balance at end of year	P700,000,000	P940,732	P234,000,000	P100,000,000	P1,034,940,732

## 21. Supplementary Information Required by the Bureau of Internal Revenue (BIR) Based on Revenue Regulations No.15-2010

In addition to the disclosures mandated under PFRS, and such other standards and/or conventions as may be adopted, companies are required by the BIR to provide in the notes to the financial statements, certain supplementary information for the taxable year. The amounts relating to such supplementary information may not necessarily be the same with those amounts disclosed in the financial statements which were prepared in accordance with PFRS. The following are the tax supplementary information required for the taxable year ended December 31, 2017:

### A. VAT

Output VAT	P428,690,826
<b>Account title used:</b>	
Basis of the Output VAT:	
Vatable sales	P3,572,423,554
Zero-rated sales	75,493,675
	P3,647,917,229

Input VAT	
Beginning of the year	P -
Current year's domestic purchases:	
a. Goods other than capital goods	90,196,676
b. Services lodged under other accounts	14,647,677
VAT on importations	229,143,168
Claims for tax credit/refund and other adjustments	(333,987,521)
Balance at the end of the year	P -

**B. Customs Duties and Tariff Fees:**

Landed cost of imports	P1,909,526,399
Customs duties paid or accrued	125,698,938
	P2,035,225,337

**C. Excise Taxes**

Imported excisable items:	
a. Spirits	P520,619,760
b. Wines	38,928,982
	P559,548,742

**D. Documentary Stamp Tax**

<i>Documentary stamp tax paid during the year recognized under "Taxes and licenses" account under Operating Expenses</i>	
On issuance of shares of stocks	P2,700,000
On loan instruments	1,158,055
On others	886,895
	P4,744,950

**E. Withholding Taxes**

Tax on compensation and benefits	P1,990,533
Creditable withholding taxes	12,058,081

**F. All Other Taxes (Local and National)**

<i>Other taxes paid during the year recognized under "Taxes and licenses" account under Operating Expenses</i>	
License and permit fees	P3,455,897
Others	1,289,921
	P4,745,818

**G. Tax Cases and Assessment**

As at December 31, 2017, the Company has no pending tax cases nor has received tax assessments notices from the BIR.

Information on tariff fees, paid or accrued, are not applicable since the Company did not enter into transaction which will result to payment or accrual of such taxes.



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## REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY INFORMATION

The Board of Directors and Stockholders  
**Montosco, Inc.**  
1501 Federal Tower, Dasmariñas Street  
Binondo, Manila

We have audited, in accordance with Philippine Standards on Auditing, the accompanying financial statements of Montosco, Inc. (the "Company"), a wholly-owned subsidiary of Cosco Capital, Inc., as at and for the years ended December 31, 2017 and 2016, and have issued our report dated April 26, 2018.

Our audit was made for the purpose of forming an opinion on the financial statements of the Company taken as a whole. Supplementary information included in the following accompanying additional components is the responsibility of the Company's management:

- Schedule of Philippine Financial Reporting Standards and Interpretations; and
- Reconciliation of Retained Earnings Available for Dividend Declaration.

This supplementary information is presented for purposes of complying with the Securities Regulation Code Rule 68, As Amended, and are not a required part of the basic financial statements. Such supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

**R.G. MANABAT & CO.**

*Maria Arleene C. Yu*  
MARIA ARLEENE C. YU

Partner

CPA License No. 0108855

Tax Identification No. 225-068-761

BIR Accreditation No. 08-002511-041-2018

Issued February 6, 2018, valid until February 5, 2021

PTR No. 6615158MD

Issued January 3, 2018 at Makati City

April 26, 2018

Makati City, Metro Manila

## MONTOSCO, INC.

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRSs Practice Statement Management Commentary				✓
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Annual Improvements to PFRSs 2009 - 2011 Cycle: First-time Adoption of Philippine Financial Reporting Standards - Repeated Application of PFRS 1			✓
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Borrowing Cost Exemption			✓
	Annual Improvements to PFRSs 2011 - 2013 Cycle: PFRS version that a first-time adopter can apply			✓
	Annual Improvements to PFRSs 2014 - 2016 Cycle: Deletion of short-term exemptions for first-time adopters		✓	
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Meaning of 'vesting condition'			✓
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions		✓	
PFRS 3 (Revised)	Business Combinations			✓
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Classification and measurement of contingent consideration			✓
	Annual Improvements to PFRSs 2011 - 2013 Cycle: Scope exclusion for the formation of joint arrangements			✓
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PFRS 4: Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts		✓	



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Changes in method for disposal			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition			✓
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets			✓
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
	Annual Improvements to PFRSs 2012 - 2014 Cycle: 'Continuing involvement' for servicing contracts			✓
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Offsetting disclosures in condensed interim financial statements			✓
PFRS 8	Operating Segments			✓
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Disclosures on the aggregation of operating segments			✓
PFRS 9	Financial Instruments		✓	
	Amendments to PFRS 9: Prepayment Features with Negative Compensation		✓	
PFRS 10	Consolidated Financial Statements			✓
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance			✓
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities			✓
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture		✓	
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception			✓
PFRS 11	Joint Arrangements			✓
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance			✓
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PFRS 12	Disclosure of Interests in Other Entities			✓
	Amendments to PFRS 10, PFRS 11, and PFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance			✓
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities			✓
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception			✓
	Annual Improvements to PFRSs 2014 - 2016 Cycle: Clarification of the scope of the standard			✓
PFRS 13	Fair Value Measurement	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Measurement of short-term receivables and payables	✓		
	Annual Improvements to PFRSs 2011 - 2013 Cycle: Scope of portfolio exception			✓
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers		✓	
PFRS 16	Leases		✓	
<b>Philippine Accounting Standards</b>				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Presentation of Financial Statements - Comparative Information beyond Minimum Requirements	✓		
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Presentation of the Opening Statement of Financial Position and Related Notes	✓		
	Amendments to PAS 1: Disclosure Initiative	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 12: Deferred Tax: Recovery of Underlying Assets			✓
	Amendments to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PAS 16	Property, Plant and Equipment	✓		
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Property, Plant and Equipment - Classification of Servicing Equipment			✓
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Restatement of accumulated depreciation (amortization) on revaluation (Amendments to PAS 16 and PAS 38)			✓
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization			✓
	Amendments to PAS 16 and PAS 41: Agriculture: Bearer Plants			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Amended)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions			✓
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Discount rate in a regional market sharing the same currency - e.g. the Eurozone			✓
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Definition of 'related party'	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans	✓		
PAS 27 (Amended)	Separate Financial Statements			✓
	Amendments to PFRS 10, PFRS 12, and PAS 27 (2011): Investment Entities			✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements			✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures			✓
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture		✓	
	Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception			✓
	Annual Improvements to PFRSs 2014 - 2016 Cycle: Measuring an associate or joint venture at fair value		✓	
	Amendments to PAS 28: Long-term Interests in Associates and Joint Ventures		✓	
PAS 29	Financial Reporting in Hyperinflationary Economies			✓



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Financial Instruments Presentation - Income Tax Consequences of Distributions			✓
PAS 33	Earnings per Share			✓
PAS 34	Interim Financial Reporting			✓
	Annual Improvements to PFRSs 2009 - 2011 Cycle: Interim Financial Reporting - Segment Assets and Liabilities			✓
	Annual Improvements to PFRSs 2012 - 2014 Cycle: Disclosure of information 'elsewhere in the interim financial report'			✓
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets			✓
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets			✓
	Annual Improvements to PFRSs 2010 - 2012 Cycle: Restatement of accumulated depreciation (amortization) on revaluation (Amendments to PAS 16 and PAS 38)			✓
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization			✓
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities			✓
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
PAS 40	Investment Property			✓
	Annual Improvements to PFRSs 2011 - 2013 Cycle: Inter-relationship of PFRS 3 and PAS 40 (Amendment to PAS 40)			✓
	Amendments to PAS 40: Transfers of Investment Property		✓	

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PAS 41	Agriculture			✓
	Amendments to PAS 16 and PAS 41: Agriculture: Bearer Plants			✓
<b>Philippine Interpretations</b>				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
IFRIC 10	Interim Financial Reporting and Impairment			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies			✓
IFRIC 22	Foreign Currency Transactions and Advance Consideration		✓	
IFRIC 23	Uncertainty over Income Tax Treatments		✓	
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-15	Operating Leases - Incentives			✓
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
<b>Philippine Interpretations Committee Questions and Answers</b>				
PIC Q&A 2006-01	PAS 18, Appendix, paragraph 9 - Revenue recognition for sales of property units under pre-completion contracts			✓
PIC Q&A 2006-02	PAS 27.10(d) - Clarification of criteria for exemption from presenting consolidated financial statements			✓
PIC Q&A 2007-01- Revised	PAS 1.103(a) - Basis of preparation of financial statements if an entity has not applied PFRSs in full			✓
PIC Q&A 2007-02	PAS 20.24.37 and PAS 39.43 - Accounting for government loans with low interest rates [see PIC Q&A No. 2008-02]			✓
PIC Q&A 2007-03	PAS 40.27 - Valuation of bank real and other properties acquired (ROPA)			✓
PIC Q&A 2007-04	PAS 101.7 - Application of criteria for a qualifying NPAE			✓
PIC Q&A 2008-01- Revised	PAS 19.78 - Rate used in discounting post-employment benefit obligations	✓		
PIC Q&A 2008-02	PAS 20.43 - Accounting for government loans with low interest rates under the amendments to PAS 20			✓
PIC Q&A 2009-01	Framework 23 and PAS 1.23 - Financial statements prepared on a basis other than going concern			✓
PIC Q&A 2009-02	PAS 39.AG71-72 - Rate used in determining the fair value of government securities in the Philippines			✓
PIC Q&A 2010-01	PAS 39.AG71-72 - Rate used in determining the fair value of government securities in the Philippines			✓
PIC Q&A 2010-02	PAS 1R 16 - Basis of preparation of financial statements	✓		
PIC Q&A 2010-03	PAS 1 Presentation of Financial Statements - Current/non-current classification of a callable term loan			✓
PIC Q&A 2011-01	PAS 1.10(f) - Requirements for a Third Statement of Financial Position			✓
PIC Q&A 2011-02	PFRS 3.2 - Common Control Business Combinations			✓
PIC Q&A 2011-03	Accounting for Inter-company Loans	✓		
PIC Q&A 2011-04	PAS 32.37-38 - Costs of Public Offering of Shares			✓
PIC Q&A 2011-05	PFRS 1.D1-D8 - Fair Value or Revaluation as Deemed Cost			✓
PIC Q&A 2011-06	PFRS 3, Business Combinations (2008), and PAS 40, Investment Property - Acquisition of Investment properties - asset acquisition or business combination?			✓
PIC Q&A 2012-01	PFRS 3.2 - Application of the Pooling of Interests Method for Business Combinations of Entities Under Common Control in Consolidated Financial Statements			✓
PIC Q&A 2012-02	Cost of a New Building Constructed on the Site of a Previous Building			✓
PIC Q&A 2013-01	Applicability of SMEIG Final Q&As on the Application of IFRS for SMEs to Philippine SMEs			✓
PIC Q&A 2013-02	Conforming Changes to PIC Q&As - Cycle 2013			✓



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PIC Q&A 2013-03 (Revised)	PAS 19 - Accounting for Employee Benefits under a Defined Contribution Plan subject to Requirements of Republic Act (RA) 7641, The Philippine Retirement Law			✓
PIC Q&A 2015-01	Conforming Changes to PIC Q&As - Cycle 2015	✓		
PIC Q&A 2016-01	Conforming Changes to PIC Q&As - Cycle 2016	✓		
PIC Q&A 2016-02	PAS 32 and PAS 38 - Accounting Treatment of Club Shares Held by an Entity			✓
PIC Q&A 2016-04	Application of PFRS 15 "Revenue from Contracts with Customers" on Sale of Residential Properties under Pre-Completion Contracts			✓
PIC Q&A 2017-01	Conforming Changes to PIC Q&As - Cycle 2017	✓		
PIC Q&A 2017-02	PAS 2 and PAS 16 - Capitalization of operating lease cost as part of construction costs of a building			✓
PIC Q&A 2017-03	PAS 28 - Elimination of profits and losses resulting from transactions between associates and/or joint ventures			✓
PIC Q&A 2017-04	PAS 24 - Related party relationships between parents, subsidiary, associate and non-controlling shareholder	✓		
PIC Q&A 2017-05	PFRS 7 - Frequently asked questions on the disclosure requirements of financial instruments under PFRS 7, Financial Instruments: Disclosures	✓		
PIC Q&A 2017-06	PAS 2, 16 and 40 - Accounting for Collector's Items			✓
PIC Q&A 2017-07	PFRS 10 - Accounting for reciprocal holdings in associates and joint ventures			✓
PIC Q&A 2017-08	PFRS 10 - Requirement to prepare consolidated financial statements where an entity disposes of its single investment in a subsidiary, associate or joint venture			✓
PIC Q&A 2017-09	PAS 17 and Philippine Interpretation SIC-15 - Accounting for payments between and among lessors and lessees			✓
PIC Q&A 2017-10	PAS 40 - Separation of property and classification as investment property			✓
PIC Q&A 2017-11	PFRS 10 and PAS 32 - Transaction costs incurred to acquire outstanding non-controlling interest or to sell non-controlling interest without a loss of control			✓
PIC Q&A 2017-12	Subsequent Treatment of Equity Component Arising from Intercompany Loans			✓
PIC Q&A 2018-01	Voluntary changes in accounting policy			✓
PIC Q&A 2018-02	Non-controlling interests and goodwill impairment test			✓
PIC Q&A 2018-03	Fair value of PPE and depreciated replacement cost			✓
PIC Q&A 2018-04	Inability to measure fair value reliably for biological assets within the scope of PAS 41			✓
PIC Q&A 2018-05	Maintenance requirement of an asset held under lease			✓
PIC Q&A 2018-06	Cost of investment in subsidiaries in SFS when pooling is applied			✓



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PIC Q&A 2018-07	Cost of an associate, joint venture, or subsidiary in separate financial statements			✓
PIC Q&A 2018-08	Accounting for the acquisition of non-wholly owned subsidiary that is not a business			✓
PIC Q&A 2018-09	Classification of deposits and progress payments as monetary or non-monetary items			✓
PIC Q&A 2018-10	Scope of disclosure of inventory write-down			✓

**Legend:**

**Adopted** - means a particular standard or interpretation is relevant to the operations of the entity (even if it has no effect or no material effect on the financial statements), for which there may be a related particular accounting policy made in the financial statements and/or there are current transactions the amounts or balances of which are disclosed on the face or in the notes of the financial statements.

**Not Adopted** - means a particular standard or interpretation is effective but the entity did not adopt it due to either of these two reasons: 1) The entity has deviated or departed from the requirements of such standard or interpretation; or 2) The standard provides for an option to early adopt it but the entity decided otherwise.

**Not Applicable** - means the standard or interpretation is not relevant at all to the operations of the entity.

**MONTOSCO, INC.**  
 1501 Federal Tower, Dasmariñas Street, Binondo, Manila  
**SCHEDULE OF RECONCILIATION OF RETAINED EARNINGS AVAILABLE  
 FOR DIVIDEND DECLARATION  
 DECEMBER 31, 2017**

<b>Unappropriated Retained Earnings, beginning</b>	<b>P613,512,209</b>
Adjustment in previous year's reconciliation:	
Unrealized foreign exchange gain - net (except those attributable to cash and cash equivalents)	<b>(6,391,070)</b>
<b>Unappropriated Retained Earnings, as adjusted, beginning</b>	<b>607,121,139</b>
<b>Net Income based on the face of audited financial statements</b>	<b>P470,767,216</b>
Less: Non-actual income	
Unrealized foreign exchange gain - net (except those attributable to cash and cash equivalents)	<b>3,039,781</b>
<b>Net Income Actual/Realized</b>	<b>473,806,997</b>
Less: Dividend declaration during the year	<b>100,000,000</b>
<b>Unappropriated Retained Earnings, as adjusted, ending</b>	<b>P980,928,136</b>



REPUBLIC OF THE PHILIPPINES  
**SECURITIES AND EXCHANGE COMMISSION**  
Ground Floor, Secretariat Building, PICC  
City Of Pasay, Metro Manila

"ANNEX C"

COMPANY REG. NO. CS201002286

**CERTIFICATE OF FILING  
OF  
AMENDED ARTICLES OF INCORPORATION**

**KNOW ALL PERSONS BY THESE PRESENTS:**

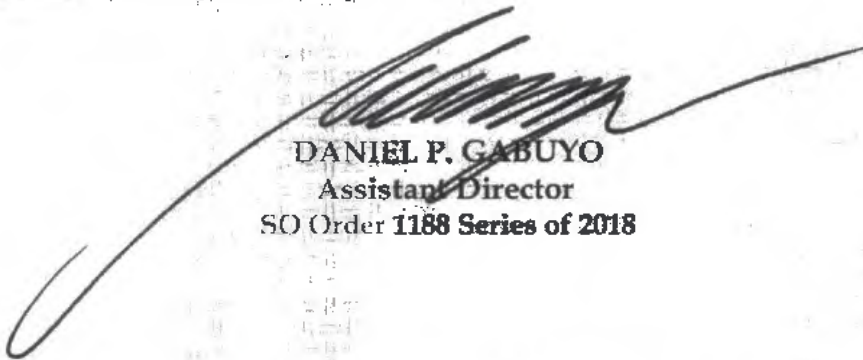
This is to certify that the amended articles of incorporation of the

**MERITUS PRIME DISTRIBUTIONS, INC.**  
(Amending Article III thereof)

copy annexed, adopted on September 14, 2018 by majority vote of the Board of Directors and by the vote of the stockholders owning or representing at least two-thirds of the outstanding capital stock, and certified under oath by the Corporate Secretary and a majority of the Board of Directors of the corporation was approved by the Commission on this date pursuant to the provision of Section 16 of the Corporation Code of the Philippines, Batas Pambansa Blg. 68, approved on May 1, 1980, and copies thereof are filed with the Commission.

Unless this corporation obtains or already has obtained the appropriate Secondary License from this Commission, this Certificate does not authorize it to undertake business activities requiring a Secondary License from this Commission such as, but not limited to acting as: broker or dealer in securities, government securities eligible dealer (GSED), investment adviser of an investment company, close-end or open-end investment company, investment house, transfer agent, commodity/financial futures exchange/broker/merchant, financing/lending company and time shares/club shares/membership certificates issuers or selling agents thereof; nor to operate a fiat money to virtual currency exchange. Neither does this Certificate constitute as permit to undertake activities for which other government agencies require a license or permit.

IN WITNESS WHEREOF, I have set my hand and caused the seal of this Commission to be affixed to this Certificate at Pasay City, Metro Manila, Philippines, this 15<sup>th</sup> day of April, Twenty Nineteen.

  
DANIEL P. GABUYO  
Assistant Director  
SO Order 1188 Series of 2018

STA/qba



# COVER SHEET

## for Applications at COMPANY REGISTRATION AND MONITORING DEPARTMENT

Nature of Application

AMENDMENT

SEC Registration Number

C S 2 0 1 0 0 2 2 8 6

Former Company Name

M E R I T U S P R I M E D I S T R I B U T I O N S ,  
I N C .

AMENDED TO:  
New Company Name

Principal Office (No./Street/Barangay/City/Town)Province)

U N I T 7 0 4 F E D E R A L T O W E R  
D A S M A R I Ñ A S S T . , B I N O N D O , M A N I L A  
1 0 0 6

### COMPANY INFORMATION

Company Email Address

info@meritusph.com

Company's Telephone Number/s

243-6630

Mobile Number

### CONTACT PERSON INFORMATION

The designated person MUST be a Director/Trustee/Partner/Officer/Resident Agent of the Corporation

Name of Contact Person

Evelyn B. Binanitan

Email Address

Telephone Number/s

(02) 522-8801

Mobile Number

Contact Person's Address

No. 900 Romualdez St., Paco, Manila

To be accomplished by CRM/ Personnel

Date

Signature

Assigned Processor

Document I.D.

Received by Corporate Filing and Records Division (CFRD)

Forwarded to:

<input type="checkbox"/>
<input type="checkbox"/>
<input type="checkbox"/>
<input type="checkbox"/>
<input type="checkbox"/>

- Corporate and Partnership Registration Division
- Green Lane Unit
- Financial Analysis and Audit Division
- Licensing Unit
- Compliance Monitoring Division

**AMENDED ARTICLES OF INCORPORATION**

**OF**

**MERITUS PRIME DISTRIBUTIONS, INC.**

**KNOW ALL MEN BY THESE PRESENTS:**

The we, all of legal age, citizens and residents of the Republic of the Philippines, this day voluntarily associated ourselves together for the purpose of forming a corporation under the laws of the Republic of the Philippines.

**AND WE HEREBY CERTIFY:**

**FIRST:** The name of this corporation shall be:

**MERITUS PRIME DISTRIBUTIONS, INC.**

**SECOND: A.** That the primary purpose of this corporation is

To carry on the business of buying, selling, importing, exporting, manufacturing, repacking, preparing, bottling and distribution on wholesale of all kinds of wines and spirits, liquors, beers and other alcoholic and non-alcoholic beverages and drinks, fresh and processed foods and other consumer products and accessories as allowed by law; of dealing in and working with all kinds of ingredients, materials, articles, appliances, supplies, property, processes, machine, tools and equipment used in, necessary, convenient or incidental to the purchase, sale, import, export, manufacture, repacking, bottling and distribution of such products; and in pursuance thereof, it shall purchase, acquire, sell, dispose, and license all patent rights improved methods, trade names, trademarks and other intellectual property rights to such products, property and processes, suitable, necessary, useful or advisable in connection with any of these businesses set forth.

B. That the corporation shall have all the express powers of a corporation as provided for under Section 36 of the Corporation Code of the Philippines.

**THIRD:** That the place where the principal office of the corporation is to be established is at Unit 704 Federal Tower, Dasmarinas St. Brgy. 282, Zone 026, San Nicolas, Manila 1010  
(As amended on September 14, 2018 by the Board of Directors and by the Stockholders and the Corporation representing at least 2/3 of the entire issued and outstanding capital stock.)

**FOURTH:** That the term of for which the corporation is to exist is fifty (50) years from the year from and after the date of issuance of the certificate of incorporation.

**FIFTH:** That the names, nationalities, and residents of the incorporators are as follows:

Name	Nationality	Residence
Maridel Behagan	Filipino	<del>1115 1/2 Marcelo Street, Purok, Marikina</del>
Lilia Gonzales	Filipino	<del>1115 1/2 Marcelo Street, Purok, Marikina</del>
Girle M. Sy	Filipino	<del>1115 1/2 Marcelo Street, Purok, Marikina</del>

Mary Jane Sim                      Filipino                      ~~XXXXXXXXXXXXXXXXXXXXXXXXXXXX, XXXXXXXX~~

Melissa Jean Fung                      Filipino                      ~~XXXXXXXXXXXXXXXXXXXXXXXXXXXX, XXXXXXXX~~

**SIXTH:** That the number of directors of said corporation shall be Five (5) and that the names, nationalities and residences of the first directors who are to serve until their successors are elected and qualified as provided by the by-laws are as follows:

Maridel Behagan                      Filipino                      ~~XXXXXXXXXXXXXXXXXXXXXXXXXXXX, XXXXXXXX~~

Lilia Gonzales                      Filipino                      ~~XXXXXXXXXXXXXXXXXXXXXXXXXXXX, XXXXXXXX~~

Girlic M. Sy                      Filipino                      ~~XXXXXXXXXXXXXXXXXXXXXXXXXXXX, XXXXXXXX~~

Mary Jane Sim                      Filipino                      ~~XXXXXXXXXXXXXXXXXXXXXXXXXXXX, XXXXXXXX~~

Melissa Jean Fung                      Filipino                      ~~XXXXXXXXXXXXXXXXXXXXXXXXXXXX, XXXXXXXX~~

**SEVENTH:** That the authorized capital stock of the corporation is Seven Hundred Fifty Million (P750,000,000.00) pesos in lawful money of the Philippines, divided into Seven Million Five Hundred (7,500,000,000) shares with the par value of One Hundred Pesos (P100.00) each.

(As amended by all the members of the Board of Directors and all stockholders representing at least two-thirds (2/3) of the entire issued and outstanding capital stock at a special meeting held on December 8, 2016).

**EIGHT:** That at least 25% of the authorized capital stock has been subscribed and at least 25% of the total subscription has been paid as follows:

Name	Nationality	No. of Shares Subscribed	Amount Subscribed	Amount Paid
Maridel Behagan	Filipino	25,000	2,500,000.00	625,500.00
Lilia Gonzales	Filipino	25,000	2,500,000.00	625,500.00
Girlic M. Sy	Filipino	25,000	2,500,000.00	625,000.00
Mary Jane Sim	Filipino	25,000	2,500,000.00	625,000.00
Melissa Jean Fung	Filipino	<u>25,000</u>	<u>2,500,000.00</u>	<u>625,000.00</u>
Total		125,000	12,500,000.00	3,125,000.00

**NINTH:** No transfer of stock or interest which would reduce the stock ownership of Filipino citizens to less than the required percentage of the capital stock as provided by existing laws shall be allowed or permitted to be recorded in the proper books of the corporation and this restriction shall be indicated in all or its stock certificates issued by the corporation.

**TENTH:** That Mary Jane Sim has been elected by the subscribers as treasurer of the Corporation to act as such until his/her successor is duly elected and qualified in accordance with the by-laws; and that as such Treasurer, he/she has been authorized to receive for and in the name and for the benefit of the corporation, all subscriptions paid by the subscribers.

**ELEVENTH:** That the incorporators undertake to change the name of the corporation immediately upon receipt of notice or directive from the Securities and Exchange Commission that another corporation, partnership or person has acquired a prior right to the use of the name or that the name has been declared misleading, deceptive confusingly similar to a registered name, or contrary to public morals, good customs or public policy.

In Witness whereof, we have set out hands this 10<sup>th</sup> day of February, 2010 at Manila.

(Signed)  
**MARIDEL BEHAGAN**

(Signed)  
**LILIA GONZALES**

(Signed)  
**GIRLIE M. SY**

(Signed)  
**MARY JANE SIM**

(Signed)  
**MELISSA JEAN FUNG**

WITNESSES:

---

**ACKNOWLEDGEMENT**

Republic of the Philippines)  
Manila. ) S.S.

**BEFORE ME**, a Notary Public in and for Manila Philippines, this 10<sup>th</sup> day of February, 2010, personally appeared:

Name	Community Tax Certificate No.	Date & Place Issued
Maridel Behagan	02692646	Jan. 19, 2010/Manila
Lilia Gonzales	01446849	Feb. 9, 2010/Manila
Girlie M. Sy	12249799	Feb. 9, 2010/Manila
Mary Jane Sim	12249819	Jan. 19, 2010/Manila
Melissa Jean Fung	12249808	Jan. 19, 2010/Manila

all known to me and to me known to be the same persons who executed the foregoing ARTICLES OF INCORPORATION and acknowledged to me that the same is their free and voluntarily act and deed.



**IN TESTIMONY WHEREOF**, I have hereunto set my hand and affixed my notarial seal on the date and at the first above written.

Doc. No. 110;  
Page No. 22;  
Book No. 1;  
Series of 2010

(SIGNED)  
ATTY. RONALD SEGUNDINO C. CHING  
NOTARY PUBLIC-CITY OF MANILA  
ADMIN. NO. 2009-193-UNTIL DEC. 31, 2010  
ROLL NO. 54899  
NO. 794111/01-04-2010 MANILA IV  
PTR NO. MLA. 8237440/01-04-2010/ MANILA

(STOCK)

**BY-LAWS  
OF  
MERITUS PRIME DISTRIBUTIONS, INC.**

(Name of Corporation)

**ARTICLE I**

**SUBSCRIPTION, ISSUANCE AND TRANSFER OF SHARES**

**Section 1. Subscriptions** – Subscribers to the capital stock of the corporation shall pay the value of the stock in accordance with the terms and conditions prescribed by the Board of Directors. Unpaid subscriptions shall not earn interest unless determined by the Board of Directors.

**Section 2. Certificate** – The stockholders shall be entitled to one or more certificates for fully paid stock subscription in his name in the books of the corporation. The certificates contain the matters required by law and the Articles of Incorporation. They shall be in such form and design as may be determined by the Board of Directors and numbered consecutively. The certificate shall be signed by the President, countersigned by the Secretary or Assistant Secretary, and sealed with the corporate seal.

**Section 3. Transfer of Share** - Subject to the restrictions, terms and conditions contained in the Articles of Incorporation, shares may be transferred, sold, assigned or pledged by delivery of the certificates duly indorsed by the stockholder, his attorney-in-fact, or other legally authorized person. The transfer shall be valid and binding on the corporation only upon record thereof in the books of the corporation. The Secretary shall cancel the stock certificates and issue new certificates to the transferee.

No share of stock against which the corporation holds unpaid claim shall be transferable in the books of the corporations.

All certificates surrendered for transfer shall be stamped "Cancelled" on the face thereof, together with the date of cancellation, and attached to the corresponding stub with the certificate book.

**Section 4. Lost Certificates** – In case any stock certificate is lost, stolen, or destroyed, a new certificate may be issued in lieu thereof in accordance with the procedure prescribed under Section 73 of the Corporation Code.

*[Handwritten signatures and scribbles on the left margin]*

**ARTICLE II**

**MEETINGS OF STOCKHOLDERS**

**Section 1. Annual / Regular Meetings** – The annual / regular meeting of stockholders shall be held at the principal office on June 20th of each year, if legal holiday then on the day following.

**Section 2. Special Meeting** – The special meetings of stockholders, for any purpose or purposes, may at anytime be called by any of the following: (a) Board of Directors, at its own instance, or at the written request of stockholders representing a majority of the outstanding capital stock, (b) President.

**Section 3. Place of Meeting** – Stockholders meetings, whether regular or special, shall be held in the principal office of the corporation or at any place designated by the Board of Directors in the city or municipality where the principal office of the corporation is located.

**Section 4. Notice of Meeting** – Notices for regular or special meetings of stockholders may be sent by the Secretary by personal delivery or by mail at least two (2) weeks prior to the date of the meeting to each stockholder of record at his last known address. The notice shall state the place, date and hour of the meeting, and the purpose or purposes for which the meeting is called.

When meeting of stockholders is adjourned to another or place, it shall not be necessary to give any notice of the adjourned meeting if the time and place to which the meeting is adjourned are announced at the meeting at which the adjournment is taken. At the reconvened meeting, any business may be transacted that might have been transacted on the original date of the meeting.

**Section 5. Quorum** – Unless otherwise provided by law, in all regular or special meeting if stockholders, a majority of the outstanding capital stock must be present or represented in order to constitute a quorum. If no quorum is constituted, the meeting shall be adjourned until the requisite amount of stock shall be present.

**Section 6. Conduct of Meeting** – Meeting of the stockholders shall be presided over by the President, or in his absence, by a chairman to be chosen by the stockholders. The Secretary, shall act as Secretary of every meetings, but if not present, the chairman of the meeting shall appoint a secretary of the meeting.

**Section 7. Manner of Voting** – At all meetings of stockholder, a stockholder may vote in person or by proxy. Unless otherwise provided in the proxy, it shall be valid only for the meeting at which it has been presented to the Secretary. All proxies must be in the hands of the Secretary before the time set for the meeting. Proxies filed with the Secretary may be revoked by the stockholders either in an instrument in writing duly presented and recorded with the Secretary, prior to a scheduled meeting or by their personal presence at the meeting.

**Section 8. Closing of Transfer Books or Fixing of Record Date** – For the purpose of determining the stockholders entitled to notice of to vote at, any meeting of stockholders or any adjournment thereof or to receive payment of any dividend, the Board of Directors may provide that the stock and transfer books be closed for ten (10) working days immediately preceding such meeting.

### ARTICLE III

#### BOARD OF DIRECTORS

**Section 1. Powers of Board** – Unless otherwise provided by law, the corporate powers of the corporation shall be exercised, all business conducted and all property of the corporation controlled and held by the Board of Directors to be elected by and from among the stockholders. Without prejudice to such powers as may be granted by law, the Board of Directors shall also have the following powers:

- a) From time to time, to make and change rules and regulations not inconsistent with these by-laws for the management of the corporation's business and affairs;
- b) To purchase, receive, take or otherwise acquire for and in the name of the corporation, any and all properties, rights, or privileges, including securities and bonds of other corporations, for such consideration and upon such terms and conditions as the Board may deem proper or convenient;
- c) To invest the funds of the corporation in other corporations or for purposes other than those for which the corporation was organized, subject to such stockholders approval as may be required by law;
- d) To incur such indebtedness as the Board may deem necessary, to issue evidence of indebtedness including without limitation, notes, deeds of trust, bonds, debentures, or securities, subject to such stockholders approval as may be required by law, and/or pledge, mortgage, or otherwise encumber all or part of the properties of the corporation;
- e) To establish pension, retirement, bonus, or other types of incentives or compensation plans for the employees, including officers and directors of the corporation;
- f) To prosecute, maintain, defend, compromise or abandon any lawsuit in which the corporation or its officer are either plaintiffs or defendants in connection with the business of the corporation;

- g) To delegate, from time to time, any of the powers of the Board which may lawfully be delegated in the course of the current business of the corporation to any standing or special committee or to any officer or agent and to appoint any person to be agent of the corporation which such powers and upon such terms as may be deemed fit;
- h) To implement these by-laws and to act on any matter not covered by these by-laws provided such matter does not require the approval or consent of the stockholders under Corporation Code.

**Section 2. Election and Term** – The Board of Directors shall be elected during each regular meeting of stockholders and shall hold office for one (1) year and until their successors are elected and qualified.

**Section 3. Vacancies** – Any vacancy occurring in the Board of Directors other than by removal by the stockholders or by expiration of term, may be filled by the vote of at least a majority of the remaining directors, if still constituting a quorum; otherwise, the vacancy must be filled by the stockholders at a regular or at any special meeting of stockholders called for the purpose. A director so elected to fill a vacancy shall be elected only for the unexpired term of his predecessor in office.

The vacancy resulting from the removal of a director by the stockholders in the manner provided by law may be filled by election at the same meeting of stockholders without further notice, or at any regular or at any special meeting of the stockholders called for the purpose, after giving notice as prescribed in these by-laws.

**Section 4. Meetings** – Regular meetings of the Board of Directors shall be held once a month on such dates and at places as may be called by the Chairman of the Board, or upon the request of a majority of the Directors.

**Section 5. Notice** – Notice of the regular or special meeting of the Board, specifying the date, time and place of the meeting, shall be communicated by the Secretary of each director personally, or by telephone, telegram, or by written message. A director may waive this requirement, either expressly or impliedly.

**Section 6. Quorum** – A majority of the number of directors as fixed in the Articles of Incorporation shall constitute a quorum for the transaction of corporate business and every decision of at least a majority of the directors present at a meeting at which there is a quorum shall be valid as a corporate act, except for the election of officers which shall require the vote of a majority of all the members of the Board.

**Section 7. Conduct of the Meetings** – Meetings of the Board of Directors shall be presided over by the Chairman of the Board, or in his absence, by any other director chosen by the Board. The Secretary shall act as secretary of every meeting, if not present, the Chairman of the meeting shall appoint a secretary of the meeting.

**Section 8. Compensation** – By-resolution of the Board, each director shall receive a reasonable per diem allowance for his attendance at each meeting of the Board. As compensation, the Board shall receive and allocate an amount of not more than ten percent (10%) of the net income before income tax of the corporation during the preceding year. Such compensation shall be determined and apportioned among the directors in such manner as the Board may deem proper, subject to the approval of stockholders representing at least a majority if the outstanding capital stock at a regular or special meeting of the stockholders.

#### **ARTICLE IV**

#### **OFFICER**

**Section 1. Election / Appointment** – Immediately after their election, the Board of Directors shall formally organize by electing the President, the Vice-President, the Treasurer, and the Secretary at said meeting.

The Board may, from time to time, appoint such other officers as it may determine to be necessary or proper. Any two (2) or more positions may be held concurrently by the same person, except that no one shall act as President and Treasurer or Secretary at the same time.

**Section 2. President** – The President shall be the Chief Executive Office of the corporation and shall exercise the following functions.

- a) To preside at the meetings of the stockholders;
- b) To initiate and develop corporate objective and policies and formulate long range projects, plans and programs for the approval of the Board of Directors, including those for executive training, development and compensation;
- c) To supervise and manage the business affairs of the corporation upon the direction of the Board of Directors;
- d) To implement the administrative and operational policies of the corporation under this supervision and control;
- e) To appoint, remove, suspend or discipline employees of the corporation, prescribe their duties, and determine their salaries;
- f) To oversee the preparation of the budgets and the statements of accounts of the corporation;
- g) To represent the corporation at all functions and proceedings;



- h) To execute on behalf of the corporation all contracts, agreement and other instruments affecting the interests of the corporation which require the approval of the Board of Directors.
- i) To make reports to the Board of Directors and stockholders;
- j) To sign certificates of stock;
- k) To perform such other duties as are incident to his office or are entrusted to him by the Board of Directors.

**Section 3. The Vice-President** – He shall, if qualified, act as President in the absence of the latter. He shall have such other powers and duties as may from time to time be assigned to him by the Board of Directors or by the President.

**Section 4. The Secretary** – The Secretary must be a resident and citizen of the Philippines. He shall have the following specific powers and duties;

- a) To record the minutes and transactions of all meetings of the directors and the stockholders and to maintain minute books of such meetings in the form and manner required by law;
- b) To keep record books showing the details required by the law with respect to the stock certificates of the corporation, including ledgers and transfer books showing all shares of the corporation subscribed, issued and transferred;
- c) To keep the corporate seal and affix it all papers and documents requiring a seal, and to attest by his signature all corporate documents requiring the same;
- d) To attend to the giving and serving of all notices of the corporation required by law or these by-laws to be given;
- e) To certify to such corporate acts, countersign corporate documents or certificates, and make reports or statements as may be required of him by law or by government rules and regulations.
- f) To act as inspector at the election of directors and, as such, to determine the number of shares of stock outstanding and entitled to vote, the shares of stock represented at the meeting, the existence of a quorum, the validity and effect of proxies, and to receive votes, ballots or consents, hear and determine questions in connection with the right to vote, count and tabulate all votes, determine the result, and do such acts as are proper to conduct the election.
- g) To perform such other duties as are incident to his office or as may be assigned to him by the Board of Directors or the President.



**Section 5. The Treasurer** – The Treasurer of the corporation shall have the following duties;

- a) To keep full and accurate accounts of receipts and disbursement in the books of the corporation;
- b) To have custody of, and be responsible for, all the funds, securities and bonds of the corporation;
- c) To deposit in the name and to the credit of the corporation, in such bank as may be designated from time to time by the Board of Directors, all the money's funds, securities, bonds, and similar valuable effects belonging to the corporations which may come under his control;
- d) To render an annual statements showing the financial condition of the corporation and such other financial reports as the Board of Directors, or the President may, from time to time require;
- e) To prepare such financial reports, statements, certifications and other documents which may, from time to time, be required by government rules and regulations and to submit the same to the proper government agencies;
- f) To exercise such powers and perform such duties and functions as may be assigned to him by the President.

**Section 6. Term of Office** – The term of office of all officers shall have one (1) year and until their successors are duly elected and qualified.

**Section 7. Vacancies** – If any position of the officers becomes vacant by reason of death, resignation, disqualification or for any other cause, the Board of Directors, by majority vote may elect a successor who shall hold office for the unexpired term.

**Section 8. Compensation** – The officers shall receive such remuneration as the Board of Directors may determine. A director shall not be precluded from serving the corporation in any other capacity as an officer, agent or otherwise and receiving compensation thereof.

## ARTICLE V

### OFFICES

**Section 1.** The principal office of the corporation shall be located at the place stated in Article III of the Articles of Incorporation. The corporation may have such other branch officers, either within or outside the Philippines as the Board of Directors may designate.

**ARTICLE VI**

**AUDIT OF BOOKS, FISCAL YEAR AND DIVIDENDS**

**Section 1. External Auditor** – At the regular stockholders meeting the external of the corporation for the ensuing year shall be appointed. The external auditor shall examine, verify and report on the earnings and expenses of the corporation.

**Section 2. Fiscal Year** – The fiscal year of the corporation shall begin of the first day of January and end on the last day December of each year.

**Section 3. Dividends** – Dividends shall be declared and paid out of the unrestricted retained earnings which shall be payable in cash, property, or stock to all stockholders on the basis of outstanding stock held by them, as often and at such times as the Board of Directors may determine and in accordance with law.

**ARTICLE VII**

**SEAL**

**Section 1. Form and Inscriptions** – The corporate seal shall be determined by the Board of Directors.

**ARTICLES VIII**

**AMENDMENTS**

**Section 1.** These by-laws may be amended or replaced by the affirmative vote of at least a majority if the Board Directors and the stockholders representing a majority of the outstanding capital stock at any stockholders meeting called for that purpose. However, the power of amend, modify, repeal or adopt new by-laws may be delegated to the Board of Directors by the affirmative vote of stockholders representing not less than two-thirds of the outstanding capital stock; provided, however, that any such delegation of powers to the Board of Directors to amend, repeal or adopt new by-laws may be revoked only by the vote of stockholders representing a majority of the outstanding capital stock at a regular or special meeting.

IN WITNESS WHEREOF, we the undersigned stockholders have adopted the foregoing by-laws and hereunto affixed our signatures this 10<sup>th</sup> day of February, 20010 at Manila

(Note: 1. If filed with Articles of Incorporation, these by-laws should be signed by all incorporators;

2. If filed after incorporators, should be signed by majority of the subscribers and should submit director's certificate for the adoption of the by-laws)



MARIDEL BEHAGAN

~~XXXXXXXXXXXX~~



LILIA GONZALES

~~XXXXXXXXXXXX~~



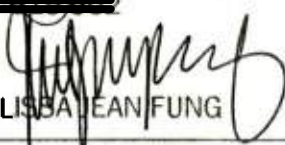
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MARY LANE SIM

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MELISSA JEAN FUNG

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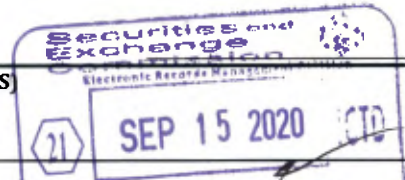
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# "ANNEX C-2"



<b>AMENDED GENERAL INFORMATION SHEET (GIS)</b> FOR THE YEAR 2020 <b>STOCK CORPORATION</b>		
<b>GENERAL INSTRUCTIONS:</b> 1. FOR USER CORPORATION: THIS GIS SHOULD BE SUBMITTED WITHIN THIRTY (30) CALENDAR DAYS FROM THE DATE OF THE ANNUAL STOCKHOLDERS' MEETING. DO NOT LEAVE ANY ITEM BLANK. WRITE "N.A." IF THE INFORMATION REQUIRED IS NOT APPLICABLE TO THE CORPORATION OR "NONE" IF THE INFORMATION IS NON-EXISTENT. IF THE ANNUAL STOCKHOLDERS' MEETING IS HELD ON A DATE OTHER THAN THAT STATED IN THE BY-LAWS, THE GIS SHALL BE SUBMITTED WITHIN THIRTY (30) CALENDAR DAYS AFTER THE ELECTION OF THE DIRECTORS, TRUSTEES AND OFFICERS OF THE CORPORATION AT THE ANNUAL MEMBERS' MEETING. 2. IF NO MEETING IS HELD, THE CORPORATION SHALL SUBMIT THE GIS NOT LATER THAN JANUARY 30 OF THE FOLLOWING YEAR. HOWEVER, SHOULD AN ANNUAL STOCKHOLDERS' MEETING BE HELD THEREAFTER, A NEW GIS SHALL BE SUBMITTED/FILED. 3. THIS GIS SHALL BE ACCOMPLISHED IN ENGLISH AND CERTIFIED AND SWORN TO BY THE CORPORATE SECRETARY OF THE CORPORATION. 4. THE SEC SHOULD BE TIMELY APPRISED OF RELEVANT CHANGES IN THE SUBMITTED INFORMATION AS THEY ARISE. FOR CHANGES RESULTING FROM ACTIONS THAT AROSE BETWEEN THE ANNUAL MEETINGS, THE CORPORATION SHALL SUBMIT AMENDED GIS CONTAINING THE NEW INFORMATION TOGETHER WITH A COVER LETTER SIGNED THE CORPORATE SECRETARY OF THE CORPORATION. THE AMENDED GIS AND COVER LETTER SHALL BE SUBMITTED WITHIN SEVEN (7) DAYS AFTER SUCH CHANGE OCCURED OR BECAME EFFECTIVE. 5. SUBMIT FOUR (4) COPIES OF THE GIS TO THE RECEIVING SECTION AT THE SEC MAIN OFFICE, OR TO SEC SATELLITE OFFICES OR EXTENSION OFFICES. ALL COPIES SHALL UNIFORMLY BE ON A4 OR LETTER-SIZED PAPER. THE PAGES OF ALL COPIES SHALL USE ONLY ONE SIDE 6. ONLY THE GIS ACCOMPLISHED IN ACCORDANCE WITH THESE INSTRUCTIONS SHALL BE CONSIDERED AS HAVING BEEN FILED. 7. THIS GIS MAY BE USED AS EVIDENCE AGAINST THE CORPORATION AND ITS RESPONSIBLE DIRECTORS/OFFICERS FOR ANY VIOLATION OF EXISTING LAWS, RULES AND REGULATIONS		
===== PLEASE PRINT LEGIBLY =====		
<b>CORPORATE NAME:</b>	MERITUS PRIME DISTRIBUTIONS, INC.	<b>DATE REGISTERED:</b>
<b>BUSINESS/TRADE NAME:</b>	MERITUS PRIME DISTRIBUTIONS, INC.	February 17, 2010
<b>SEC REGISTRATION NUMBER:</b>	CS201002286	<b>FISCAL YEAR END:</b>
<b>DATE OF ANNUAL MEETING PER BY-LAWS:</b>	20th day of June	<b>CORPORATE TAX IDENTIFICATION NUMBER (TIN)</b>
<b>ACTUAL DATE OF ANNUAL MEETING:</b>	August 18, 2020	007-613-210
<b>COMPLETE PRINCIPAL OFFICE ADDRESS:</b>	Unit 704 Federal Tower, Dasmariñas St., Brgy. 282, Zone 026, San Nicolas, Manila	<b>WEBSITE/URL ADDRESS:</b>
<b>COMPLETE BUSINESS ADDRESS:</b>	Unit 704 Federal Tower, Dasmariñas St., Brgy. 282, Zone 026, San Nicolas, Manila	www.meritusph.com
<b>NAME OF EXTERNAL AUDITOR &amp; ITS SIGNING PARTNER:</b>	R.G. Manabat & Company / Gregorio I. Sambrano, Jr.	<b>E-MAIL ADDRESS:</b>
		info@meritusph.com
<b>SEC ACCREDITATION NUMBER (if applicable):</b>	N/A	<b>FAX NUMBER:</b>
<b>TELEPHONE NUMBER(S):</b>		(02) 83539680
<b>TELEPHONE NUMBER(S):</b>		(02) 8242-0635
<b>PRIMARY PURPOSE/ACTIVITY/INDUSTRY PRESENTLY ENGAGED IN:</b>	<b>INDUSTRY CLASSIFICATION:</b>	<b>GEOGRAPHICAL CODE:</b>
To carry on the business of buying, selling, importing, manufacturing, repacking, preparing, bottling and distribution on wholesale of all kinds of wines, spirits, liquors, beers and others.	Wholesale Trade and Commission Trade, Except Motor Vehicle	N/A
===== INTERCOMPANY AFFILIATIONS =====		
<b>PARENT COMPANY</b>	<b>SEC REGISTRATION NO.</b>	<b>ADDRESS</b>
Cosco Capital, Inc.	147669	No. 900 Romualdez St., Paco, Manila
<b>SUBSIDIARY/AFFILIATE</b>	<b>SEC REGISTRATION NO.</b>	<b>ADDRESS</b>
N/A	N/A	N/A
NOTE: USE ADDITIONAL SHEET IF NECESSARY		



**AMENDED GENERAL INFORMATION SHEET**

**STOCK CORPORATION**

===== PLEASE PRINT LEGIBLY =====

**Corporate Name:**

**MERITUS PRIME DISTRIBUTIONS, INC.**

**A. Is the Corporation a covered person under the Anti Money Laundering Act (AMLA), as amended? (Rep. Acts. 9160/9164/10167/10365)**     Yes     No

**Please check the appropriate box:**

<p><b>1.</b></p> <p><input type="checkbox"/> a. Banks</p> <p><input type="checkbox"/> b. Offshore Banking Units</p> <p><input type="checkbox"/> c. Quasi-Banks</p> <p><input type="checkbox"/> d. Trust Entities</p> <p><input type="checkbox"/> e. Non-Stock Savings and Loan Associations</p> <p><input type="checkbox"/> f. Pawnshops</p> <p><input type="checkbox"/> g. Foreign Exchange Dealers</p> <p><input type="checkbox"/> h. Money Changers</p> <p><input type="checkbox"/> i. Remittance Agents</p> <p><input type="checkbox"/> j. Electronic Money Issuers</p> <p><input type="checkbox"/> k. Financial Institutions which Under Special Laws are subject to Bangko Sentral ng Pilipinas' (BSP) supervision and/or regulation, including their subsidiaries and affiliates.</p>	<p><b>4.</b> <input type="checkbox"/> Jewelry dealers in precious metals, who, as a business, trade in precious metals</p>
<p><b>2.</b></p> <p><input type="checkbox"/> a. Insurance Companies</p> <p><input type="checkbox"/> b. Insurance Agents</p> <p><input type="checkbox"/> c. Insurance Brokers</p> <p><input type="checkbox"/> d. Professional Reinsurers</p> <p><input type="checkbox"/> e. Reinsurance Brokers</p> <p><input type="checkbox"/> f. Holding Companies</p> <p><input type="checkbox"/> g. Holding Company Systems</p> <p><input type="checkbox"/> h. Pre-need Companies</p> <p><input type="checkbox"/> i. Mutual Benefit Association</p> <p><input type="checkbox"/> j. All Other Persons and entities supervised and/or regulated by the Insurance Commission (IC)</p>	<p><b>5.</b> <input type="checkbox"/> Jewelry dealers in precious stones, who, as a business, trade in precious stone</p>
<p><b>3.</b></p> <p><input type="checkbox"/> a. Securities Dealers</p> <p><input type="checkbox"/> b. Securities Brokers</p> <p><input type="checkbox"/> c. Securities Salesman</p> <p><input type="checkbox"/> d. Investment Houses</p> <p><input type="checkbox"/> e. Investment Agents and Consultants</p> <p><input type="checkbox"/> f. Trading Advisors</p> <p><input type="checkbox"/> g. Other entities managing Securities or rendering similar services</p> <p><input type="checkbox"/> h. Mutual Funds or Open-end Investment Companies</p> <p><input type="checkbox"/> i. Close-end Investment Companies</p> <p><input type="checkbox"/> j. Common Trust Funds or Issuers and other similar entities</p> <p><input type="checkbox"/> k. Transfer Companies and other similar entities</p> <p><input type="checkbox"/> l. Other entities administering or otherwise dealing in currency, commodities or financial derivatives based there on</p> <p><input type="checkbox"/> m. Entities administering of otherwise dealing in valuable objects</p> <p><input type="checkbox"/> n. Entities administering or otherwise dealing in cash Substitutes and other similar monetary instruments or property supervised and/or regulated by the Securities and Exchange Commission (SEC)</p>	<p><b>6.</b> Company service providers which, as a business, provide any of the following services to third parties:</p> <p><input type="checkbox"/> a. acting as a formation agent of juridical persons</p> <p><input type="checkbox"/> b. acting as (or arranging for another person to act as) a director or corporate secretary of a company, a partner of a partnership, or a similar position in relation to other juridical persons</p> <p><input type="checkbox"/> c. providing a registered office, business address or accommodation, correspondence or administrative address for a company, a partnership or any other legal person or arrangement</p> <p><input type="checkbox"/> d. acting as (or arranging for another person to act as) a nominee shareholder for another person</p>
	<p><b>7.</b> Persons who provide any of the following services:</p> <p><input type="checkbox"/> a. managing of client money, securities or other assets</p> <p><input type="checkbox"/> b. management of bank, savings or securities accounts</p> <p><input type="checkbox"/> c. organization of contributions for the creation, operation or management of companies</p> <p><input type="checkbox"/> d. creation, operation or management of juridical persons or arrangements, and buying and selling business entities</p>
	<p><b>8.</b> <input type="checkbox"/> None of the above</p> <p>Describe nature of business: To carry on the business of buying, selling, importing, exporting, manufacturing, repacking, preparing, bottling and distribution on wholesale of all kinds of wines, spirits, liquors, beers and other alcoholic beverages and others</p>

**B. Has the Corporation complied with the requirements on Customer Due Diligence (CDD) or Know Your Customer (KYC), record-keeping, and submission of reports under the AMLA, as amended, since the last filing of its GIS?**     Yes     No

**AMENDED GENERAL INFORMATION SHEET  
STOCK CORPORATION**

===== PLEASE PRINT LEGIBLY =====

**CORPORATE NAME:** MERITUS PRIME DISTRIBUTIONS, INC.

**CAPITAL STRUCTURE**

<b>AUTHORIZED CAPITAL STOCK</b>				
	<b>TYPE OF SHARES *</b>	<b>NUMBER OF SHARES</b>	<b>PAR/STATED VALUE</b>	<b>AMOUNT (PhP) (No. of shares X Par/Stated Value)</b>
	COMMON	7,500,000	100.00	750,000,000.00
<b>TOTAL</b>		<b>7,500,000</b>	<b>TOTAL P</b>	<b>750,000,000.00</b>

<b>SUBSCRIBED CAPITAL</b>							
<b>FILIPINO</b>	<b>NO. OF STOCK-HOLDERS</b>	<b>TYPE OF SHARES *</b>	<b>NUMBER OF SHARES</b>	<b>NUMBER OF SHARES IN THE HANDS OF THE PUBLIC **</b>	<b>PAR/STATED VALUE</b>	<b>AMOUNT (PhP)</b>	<b>% OF OWNERSHIP</b>
	7	COMMON	7,500,000		100.00	750,000,000.00	100.00%
		COMMON					
<b>TOTAL</b>			<b>7,500,000</b>	<b>TOTAL</b>	<b>TOTAL P</b>	<b>750,000,000.00</b>	<b>100.00%</b>
<b>FOREIGN (INDICATE BY NATIONALITY)</b>	<b>NO. OF STOCK-HOLDERS</b>	<b>TYPE OF SHARES *</b>	<b>NUMBER OF SHARES</b>	<b>NUMBER OF SHARES IN THE HANDS OF THE PUBLIC **</b>	<b>PAR/STATED VALUE</b>	<b>AMOUNT (PhP)</b>	<b>% OF OWNERSHIP</b>
N/A	N/A	N/A	N/A	N/A		N/A	N/A
<b>Percentage of Foreign Equity :</b>		<b>TOTAL</b>	<b>0</b>	<b>TOTAL</b>	<b>TOTAL P</b>	<b>0.00</b>	<b>0.00%</b>
<b>TOTAL SUBSCRIBED P</b>						<b>750,000,000.00</b>	<b>100.00%</b>

<b>PAID-UP CAPITAL</b>							
<b>FILIPINO</b>	<b>NO. OF STOCK-HOLDERS</b>	<b>TYPE OF SHARES *</b>	<b>NUMBER OF SHARES</b>	<b>PAR/STATED VALUE</b>	<b>AMOUNT (PhP)</b>	<b>% OF OWNERSHIP</b>	
	7	COMMON	7,500,000	100.00	750,000,000.00	100.00%	
<b>TOTAL</b>			<b>7,500,000</b>	<b>TOTAL P</b>	<b>750,000,000.00</b>	<b>100.00%</b>	
<b>FOREIGN (INDICATE BY NATIONALITY)</b>	<b>NO. OF STOCK-HOLDERS</b>	<b>TYPE OF SHARES *</b>	<b>NUMBER OF SHARES</b>	<b>PAR/STATED VALUE</b>	<b>AMOUNT (PhP)</b>	<b>% OF OWNERSHIP</b>	
N/A	N/A	N/A	N/A	N/A	N/A	N/A	
<b>TOTAL</b>		<b>0</b>	<b>TOTAL P</b>	<b>0.00</b>	<b>0.00%</b>		
<b>TOTAL PAID-UP P</b>					<b>750,000,000.00</b>	<b>100.00%</b>	

**NOTE: USE ADDITIONAL SHEET IF NECESSARY**

\* Common, Preferred or other classification  
\*\* Other than Directors, Officers, Shareholders owning 10% of outstanding shares.

**AMENDED GENERAL INFORMATION SHEET**

STOCK CORPORATION

PLEASE PRINT LEGIBLY

CORPORATE NAME:

MERITUS PRIME DISTRIBUTIONS, INC.

**DIRECTORS / OFFICERS**

NAME/CURRENT RESIDENTIAL ADDRESS	NATIONALITY	INC'R	BOARD	GENDER	STOCK HOLDER	OFFICER	EXEC. COMM.	TAX IDENTIFICATION NUMBER
1. CAMILLE CLARISSE P. CO ██████████ ██████████	Filipino	N	C	F	Y	Chairman and President	N/A	██████████
2. LUCIO L. CO ██████████ ██████████	Filipino	N	M	M	Y	Director	N/A	██████████
3. SUSAN P. CO ██████████ ██████████	Filipino	N	M	F	Y	Director	N/A	██████████
4. FERDINAND VINCENT P. CO ██████████ ██████████	Filipino	N	M	M	Y	Director	N/A	██████████
5. PAMELA JUSTINE P. CO ██████████ ██████████	Filipino	N	M	M	Y	Director	N/A	██████████
6. MARIDEL BEHAGAN ██████████ ██████████	Filipino	N	N	F	N	Vice-President	N/A	██████████
7. EVELYN B. BINANITAN ██████████ ██████████	Filipino	N	N	F	N	Corporate Secretary	N/A	██████████
8. CATHERINE W. CAI ██████████ ██████████	Filipino	N	N	F	N	Treasurer	N/A	██████████

**INSTRUCTION:**

FOR SEX COLUMN, PUT "F" FOR FEMALE, "M" FOR MALE.  
 FOR BOARD COLUMN, PUT "C" FOR CHAIRMAN, "M" FOR MEMBER, "I" FOR INDEPENDENT DIRECTOR.  
 FOR INC'R COLUMN, PUT "Y" IF AN INCORPORATOR, "N" IF NOT.  
 FOR STOCKHOLDER COLUMN, PUT "Y" IF A STOCKHOLDER, "N" IF NOT.  
 FOR OFFICER COLUMN, INDICATE PARTICULAR POSITION IF AN OFFICER, FROM VP UP INCLUDING THE POSITION OF THE TREASURER, SECRETARY, COMPLIANCE OFFICER AND/OR ASSOCIATED PERSON.  
 FOR EXECUTIVE COMMITTEE, INDICATE "C" IF MEMBER OF THE COMPENSATION COMMITTEE; "A" FOR AUDIT COMMITTEE; "N" FOR NOMINATION AND "E" FOR ELECTION COMMITTEE. ADDITIONALLY WRITE "C" AFTER SLASH IF CHAIRMAN AND "M" IF MEMBER.



**AMENDED GENERAL INFORMATION SHEET  
STOCK CORPORATION**

===== PLEASE PRINT LEGIBLY =====

**CORPORATE NAME:** MERITUS PRIME DISTRIBUTIONS, INC.

**TOTAL NUMBER OF STOCKHOLDERS:** 7 **NO. OF STOCKHOLDERS WITH 100 OR MORE SHARES:** 1

**TOTAL ASSETS BASED ON LATEST AUDITED FINANCIAL STATEMENTS:** 1,494,110,151.00

**STOCKHOLDER'S INFORMATION**

NAME, NATIONALITY AND CURRENT RESIDENTIAL ADDRESS	SHARES SUBSCRIBED				AMOUNT PAID (PhP)	TAX IDENTIFICATION NUMBER
	TYPE	NUMBER	AMOUNT (PhP)	% OF OWNERSHIP		
1. COSCO CAPITAL, INC. FILIPINO ██ ██	COMMON	7,499,994	749,999,400.00	100.00%	749,999,400.00	██████████
	<b>TOTAL</b>	<b>7,499,994</b>	<b>749,999,400.00</b>			
2. LUCIO L. CO FILIPINO ██ ██	COMMON	1	100.00	0.00%	100.00	██████████
	<b>TOTAL</b>	<b>1</b>	<b>100.00</b>			
3. SUSAN P. CO FILIPINO ██ ██	COMMON	1	100.00	0.00%	100.00	██████████
	<b>TOTAL</b>	<b>1</b>	<b>100.00</b>			
4. FERDINAND VINCENT P. CO FILIPINO ██ ██	COMMON	1	100.00	0.00%	100.00	██████████
	<b>TOTAL</b>	<b>1</b>	<b>100.00</b>			
5. PAMELA JUSTINE P. CO FILIPINO ██ ██	COMMON	1	100.00	0.00%	100.00	██████████
	<b>TOTAL</b>	<b>1</b>	<b>100.00</b>			
6. CAMILLE CLARISSE P. CO FILIPINO ██ ██	COMMON	1	100.00	0.00%	100.00	██████████
	<b>TOTAL</b>	<b>1</b>	<b>100.00</b>			
7. KATRINA MARIE P. CO FILIPINO ██ ██	COMMON	1	100.00	0.00%	100.00	██████████
	<b>TOTAL</b>	<b>1</b>	<b>100.00</b>			
<b>TOTAL AMOUNT OF SUBSCRIBED CAPITAL</b>				<b>100.00%</b>	<b>750,000,000.00</b>	
<b>TOTAL AMOUNT OF PAID-UP CAPITAL</b>						

**INSTRUCTION: SPECIFY THE TOP 20 STOCKHOLDERS AND INDICATE THE REST AS OTHERS**

*Note: For PDTC Nominee included in the list, please indicate further the beneficial owners owning more than 5% of any class of the company's voting securities. Attach separate sheet, if necessary.*

**AMENDED GENERAL INFORMATION SHEET  
STOCK CORPORATION**

PLEASE PRINT LEGIBLY			
<b>CORPORATE NAME: MERITUS PRIME DISTRIBUTIONS, INC.</b>			
<b>1. INVESTMENT OF CORPORATE FUNDS IN ANOTHER CORPORATION</b>	<b>AMOUNT (PhP)</b>	<b>DATE OF BOARD RESOLUTION</b>	
1.1 STOCKS	N/A	N/A	
1.2 BONDS/COMMERCIAL PAPER (Issued by Private Corporations)	N/A	N/A	
1.3 LOANS/ CREDITS/ ADVANCES	N/A	N/A	
1.4 GOVERNMENT TREASURY BILLS	N/A	N/A	
1.5 OTHERS	N/A	N/A	
<b>2. INVESTMENT OF CORPORATE FUNDS IN ACTIVITIES UNDER ITS SECONDARY PURPOSES (PLEASE SPECIFY:)</b>	<b>DATE OF BOARD RESOLUTION</b>	<b>DATE OF STOCKHOLDERS RATIFICATION</b>	
N/A	N/A	N/A	
<b>3. TREASURY SHARES</b>	<b>NO. OF SHARES</b>	<b>% AS TO THE TOTAL NO. OF SHARES ISSUED</b>	
	N/A		
<b>4. UNRESTRICTED/UNAPPROPRIATED RETAINED EARNINGS AS OF END OF LAST FISCAL YEAR : 393,606,397</b>			
<b>5. DIVIDENDS DECLARED DURING THE IMMEDIATELY PRECEDING YEAR:</b>			
<b>TYPE OF DIVIDEND</b>	<b>AMOUNT (PhP)</b>	<b>DATE DECLARED</b>	
5.1 CASH	N/A	N/A	
5.2 STOCK	N/A	N/A	
5.3 PROPERTY	N/A	N/A	
<b>TOTAL</b>	<b>P</b>		
<b>6. ADDITIONAL SHARES ISSUED DURING THE PERIOD:</b>			
<b>DATE</b>	<b>NO. OF SHARES</b>	<b>AMOUNT</b>	
N/A	N/A	N/A	
<b>SECONDARY LICENSE/REGISTRATION WITH SEC AND OTHER GOV'T AGENCY:</b>			
<b>NAME OF AGENCY:</b>	SEC	B S P	I C
<b>TYPE OF LICENSE/REGN.</b>	N/A	N/A	N/A
<b>DATE ISSUED:</b>	N/A	N/A	N/A
<b>DATE STARTED OPERATIONS:</b>	N/A	N/A	N/A
<b>TOTAL ANNUAL COMPENSATION OF DIRECTORS DURING THE PRECEDING FISCAL YEAR (in PhP)</b>	<b>TOTAL NO. OF OFFICERS</b>	<b>TOTAL NO. OF RANK &amp; FILE EMPLOYEES</b>	<b>TOTAL MANPOWER COMPLEMENT</b>
1,174,429.00	8	28	36

NOTE: USE ADDITIONAL SHEET IF NECESSARY

I, EVELYN B. BINANITAN Corporate Secretary of MERITUS PRIME DISTRIBUTIONS, INC. declare under penalty of perjury that all matters set forth in this GIS have been made in good faith, duly verified by me and to the best of my knowledge and belief are true and correct.

I hereby attest that all the information in this GIS are being submitted in compliance with the rules and regulations of the Securities and Exchange Commission (SEC) the collection, processing, storage and sharing of said information being necessary to carry out the functions of public authority for the performance of the constitutionally and statutorily mandated functions of the SEC as a regulatory agency.

I further attest that I have been authorized by the Board of Directors/Trustees to file this GIS with the SEC.

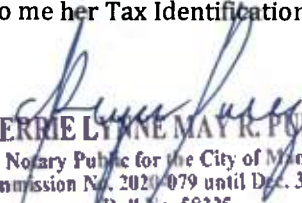
I understand that the Commission may place the corporation under delinquent status for failure to submit the reportorial requirements three (3) times, consecutively or intermittently, within a period of five (5) years (Section 177, RA No. 11232).

Done this SEP 14, 2020 day of September, 2020 in the City of Manila.

  
EVELYN B. BINANITAN  
Corporate Secretary

**SUBSCRIBED AND SWORN TO** before me in the City of Manila on SEP 14 2020 by affiant who personally appeared before me and exhibited to me her Tax Identification Card with no. ~~XXXXXXXXXX~~ issued by the Bureau of Internal Revenue.

Doc. No. 101  
Page No. 30  
Book No. 24  
Series of 2020.

  
CHERRIE LYNNE MAY R. POREZA  
Notary Public for the City of Manila  
Commission No. 2020-079 until Dec. 31, 2021  
Roll No. 58325  
IBP Lifetime Member No. 09093  
PTR No. 9120218/01-02-2020/Mia.  
MCLE Compliance No. VI-0022488/04-16-19  
No. 900 Romualdez St., Paco, Manila



**STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR FINANCIAL STATEMENTS**

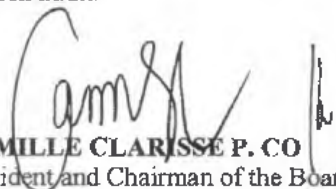
The management of **MERITUS PRIME DISTRIBUTIONS, INC.** (the "Company") is responsible for the preparation and fair presentation of the separate financial statements, including the schedule attached therein, as at and for the years ended **December 31, 2019 and 2018**, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of the separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate 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

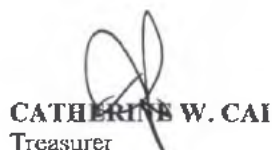
The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the separate financial statements including the schedule attached therein, and submits the same to the stockholders.

**R.G. Manabat & Co.**, the independent auditor appointed by the stockholders, has audited the separate financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.



**CAMILLE CLARISSE P. CO**  
President and Chairman of the Board



**CATHERINE W. CAI**  
Treasurer

Signed this 9<sup>th</sup> day of June 2020



# COVER SHEET

## for AUDITED FINANCIAL STATEMENTS

SEC Registration Number

C S 2 0 1 0 0 2 2 8 6

### COMPANY NAME

M E R I T U S P R I M E D I S T R I B U T I O N S ,  
I N C . ( A W h o l l y - o w n e d  
S u b s i d i a r y o f C o s c o  
C a p i t a l , I n c . )

### PRINCIPAL OFFICE (No. / Street / Barangay / City / Town / Province)

U n i t 7 0 4 F e d e r a l T o w e r  
D a s m a r i ñ a s S t .  
B i n o n d o M a n i l a

Form Type

A A F S

Department requiring the report

Secondary License Type, If Applicable

### COMPANY INFORMATION

Company's email Address

www.coscocapital.com

Company's Telephone Number/s

(02) 242-0635

Mobile Number

No. of Stockholders

7

Annual Meeting (Month / Day)

June 20

Fiscal Year (Month / Day)

December 31

### CONTACT PERSON INFORMATION

The designated contact person **MUST** be an Officer of the Corporation

Name of Contact Person

Camille Clarisse P. Co.

Email Address

Telephone Number/s

(02) 242-0635

Mobile Number

### CONTACT PERSON'S ADDRESS

704 Federal Tower, Dasmarinas Street, Binondo Manila

*Note 1: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.*

*2: All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.*

# MERITUS PRIME DISTRIBUTIONS, INC.

(A Wholly-owned Subsidiary of Cosco Capital, Inc.)

**FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

With Independent Auditors' Report



R.G. Manabat & Co.  
The KPMG Center, 9/F  
6787 Ayala Avenue, Makati City  
Philippines 1226  
Telephone +63 (2) 8885 7000  
Fax +63 (2) 8894 1985  
Website home.kpmg/ph  
Email ph-inquiry@kpmg.com

## REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders  
**Meritus Prime Distributions, Inc.**  
704 Federal Tower, Dasmariñas St.  
Binondo, Manila

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of Meritus Prime Distributions, Inc. (the "Company"), a wholly-owned subsidiary of Cosco Capital, Inc., which comprise the statements of financial position as at December 31, 2019 and 2018, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended 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 *Auditors' 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 the 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.





### *Responsibilities of Management and the Board of Directors for the Financial Statements*

Management is responsible for the preparation and fair presentation of the 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 its operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

### *Auditors' Responsibilities for the Audit of the 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 auditors' 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, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSA, we exercise professional judgment and maintain professional skepticism throughout the audits. 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 auditors' 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 auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.



- 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 the Board of Directors and management 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.

**Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010 of the Bureau of Internal Revenue**

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 24 to financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

**R.G. MANABAT & CO.**

*Gregorio I. Sambrano, Jr.*  
GREGORIO I. SAMBRANO, JR.  
Partner

CPA License No. 088825

SEC Accreditation No. 1548-AR-1, Group A, valid until December 17, 2021

Tax Identification No. 152-885-329

BIR Accreditation No. 08-001987-36-2018

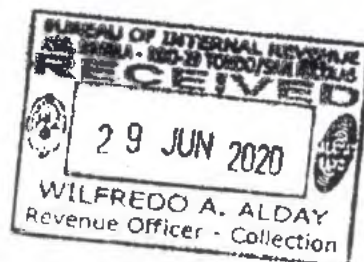
Issued September 20, 2018; valid until September 19, 2021

PTR No. MKT 8116783

Issued January 2, 2020 at Makati City

June 25, 2020

Makati City, Metro Manila





R.G. Manabat & Co.  
The KPMG Center, 9/F  
6787 Ayala Avenue, Makati City  
Philippines 1226  
Telephone +63 (2) 8885 7000  
Fax +63 (2) 8894 1985  
Website home.kpmg/ph  
Email ph-inquiry@kpmg.com


**REPORT OF INDEPENDENT AUDITORS  
TO ACCOMPANY FINANCIAL STATEMENTS FOR FILING  
WITH THE SECURITIES AND EXCHANGE COMMISSION**

The Board of Directors and Stockholders  
**Meritus Prime Distributions, Inc.**  
704 Federal Tower, Dasmarina St.  
Binondo, Manila

We have audited the accompanying financial statements of Meritus Prime Distributions, Inc. (the "Company"), a wholly-owned subsidiary of Cosco Capital, Inc., as at and for the year ended December 31, 2019, on which we have rendered our report dated June 25, 2020.

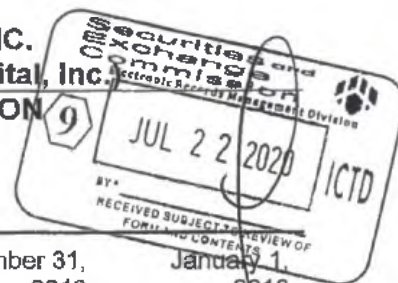
In compliance with Revised Securities Regulation Code Rule 68, we are stating that the said Company has one (1) stockholder owning one hundred (100) or more shares.

**R.G. MANABAT & CO.**

  
GREGORIO I. SAMBRANO, JR.  
Partner  
CPA License No. 088825  
SEC Accreditation No. 1548-AR-1, Group A, valid until December 17, 2021  
Tax Identification No. 152-885-329  
BIR Accreditation No. 08-001987-36-2018  
Issued September 20, 2018; valid until September 19, 2021  
PTR No. MKT 8116783  
Issued January 2, 2020 at Makati City

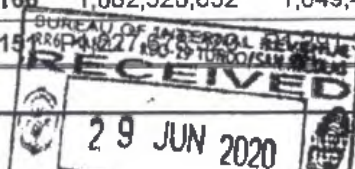
June 25, 2020  
Makati City, Metro Manila

**MERITUS PRIME DISTRIBUTIONS, INC.**  
**(A Wholly-owned Subsidiary of Cosco Capital, Inc.)**  
**STATEMENTS OF FINANCIAL POSITION**



	December 31, 2018	December 31, 2019	December 31, 2018 (As restated - see Note 22)	January 1, 2018 (As restated - see Note 22)
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash		5, 19 P44,277,185	P52,180,421	P74,641,298
Trade and other receivables - net	6, 19	379,028,186	254,266,729	336,739,024
Inventories	7	717,189,440	561,595,644	624,566,976
Prepaid expenses and other current assets	8	348,493,202	350,652,488	242,202,868
<b>Total Current Assets</b>		<b>1,488,988,013</b>	<b>1,218,695,282</b>	<b>1,278,150,166</b>
<b>Noncurrent Assets</b>				
Right-of-use assets - net	16	2,458,959	5,336,946	8,214,934
Property and equipment - net	9	924,248	1,896,032	3,021,269
Refundable deposits	10, 19	883,080	873,936	842,310
Deferred income tax assets - net	18	855,851	876,124	1,081,766
<b>Total Noncurrent Assets</b>		<b>5,122,138</b>	<b>8,983,038</b>	<b>13,160,279</b>
		<b>P1,494,110,151</b>	<b>P1,227,678,320</b>	<b>P1,291,310,445</b>
<b>LIABILITIES AND EQUITY</b>				
<b>Current Liabilities</b>				
Trade and other payables	11	P33,791,646	P51,564,573	P54,514,583
Loans payable	12, 19	296,000,000	-	100,000,000
Income tax payable		16,214,652	12,018,068	7,051,346
Lease liabilities - current	16, 19	2,913,534	3,096,405	2,842,870
Dividends payable	14, 19	-	75,000,000	50,000,000
Advances from Parent Company		-	-	20,000,000
<b>Total Current Liabilities</b>		<b>348,919,832</b>	<b>141,679,046</b>	<b>234,408,799</b>
<b>Noncurrent Liabilities</b>				
Retirement benefits liability	17	760,153	764,908	1,491,441
Lease liabilities - noncurrent	16, 19	-	2,913,534	6,009,939
<b>Total Noncurrent Liabilities</b>		<b>760,153</b>	<b>3,678,442</b>	<b>7,501,380</b>
<b>Total Liabilities</b>		<b>349,679,985</b>	<b>145,357,488</b>	<b>241,910,179</b>
<b>Equity</b>				
Capital stock	14	P750,000,000	P750,000,000	P750,000,000
Retained earnings	14	393,606,397	331,555,404	299,297,501
Accumulated remeasurements on retirement benefits	17	823,769	765,428	102,765
<b>Total Equity</b>		<b>1,144,430,166</b>	<b>1,082,320,832</b>	<b>1,049,400,266</b>
		<b>P1,494,110,151</b>	<b>P1,227,678,320</b>	<b>P1,291,310,445</b>

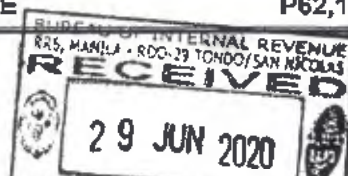
See Notes to Financial Statements.



**MERITUS PRIME DISTRIBUTIONS, INC.**  
**(A Wholly-owned Subsidiary of Cosco Capital, Inc.)**  
**STATEMENTS OF COMPREHENSIVE INCOME**

		Years Ended December 31	
	Note	2019	2018 (As restated - see Note 22)
<b>NET SALES</b>	13	<b>P958,828,756</b>	<b>P923,272,269</b>
<b>COST OF GOODS SOLD</b>	15	<b>780,137,292</b>	<b>722,487,888</b>
<b>GROSS PROFIT</b>		<b>178,691,464</b>	<b>200,784,381</b>
<b>OPERATING EXPENSES</b>			
Outside services		14,765,449	22,885,866
Advertising		12,850,187	53,151,355
Salaries and other employee benefits	17	12,377,632	12,672,637
Taxes and licenses		6,398,861	3,963,372
Deficiency taxes		6,278,733	4,693,252
Distribution cost		4,572,407	6,121,895
Depreciation and amortization	9, 16	3,883,119	4,028,554
Transportation and travel		2,526,242	2,791,031
Insurance		1,844,564	2,925,172
Representation and entertainment		671,203	1,010,694
Miscellaneous		2,644,878	2,046,512
		<b>68,813,275</b>	<b>116,290,340</b>
<b>INCOME FROM OPERATIONS</b>		<b>109,878,189</b>	<b>84,494,041</b>
<b>OTHER CHARGES - Net</b>			
Interest expense	12, 13, 16	(14,785,316)	(1,163,628)
Foreign exchange losses - net		(4,459,441)	(1,499,373)
Interest income	5	187,919	1,763,212
Bank charges		(107,404)	(158,730)
Commission expense		-	(285,121)
		<b>(19,164,242)</b>	<b>(1,343,640)</b>
<b>INCOME BEFORE INCOME TAX</b>		<b>90,713,947</b>	<b>83,150,401</b>
<b>PROVISION FOR INCOME TAX</b>	18	<b>28,662,954</b>	<b>25,892,498</b>
<b>NET INCOME</b>		<b>62,050,993</b>	<b>57,257,903</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
<b>Item that will never be reclassified to profit or loss in subsequent periods</b>			
Remeasurement gains on retirement benefits	17	83,345	946,662
Income tax effect	18	(25,004)	(283,999)
		<b>58,341</b>	<b>662,663</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>P62,109,334</b>	<b>P57,920,566</b>

See Notes to Financial Statements.





**MERITUS PRIME DISTRIBUTIONS, INC.**  
**(A Wholly-owned Subsidiary of Cosco Capital, Inc.)**  
**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<i>Note</i>	Capital Stock (Note 14)	Retained Earnings (Note 14)	Accumulated Remeasurements on Retirement Benefits (Note 17)	Total
Balances at January 1, 2018, as previously reported		P750,000,000	P299,491,129	P102,765	P1,049,593,894
Restatements	22	-	(193,628)	-	(193,628)
Balances at January 1, 2018, as restated		750,000,000	299,297,501	102,765	1,049,400,266
Net income for the year, as previously reported		-	57,282,485	-	57,282,485
Restatements	22	-	(24,582)	-	(24,582)
Net income for the year, as restated		-	57,257,903	-	57,257,903
Other comprehensive income for the year		-	-	662,663	662,663
Total comprehensive income for the year, as restated		-	57,257,903	662,663	57,920,566
Cash dividends declared		-	(25,000,000)	-	(25,000,000)
Balances at December 31, 2018, as restated		750,000,000	331,555,404	765,428	1,082,320,832
Net income for the year		-	62,050,993	-	62,050,993
Other comprehensive income for the year		-	-	58,341	58,341
Total comprehensive income for the year		-	62,050,993	58,341	62,109,334
<b>Balances at December 31, 2019</b>		<b>P750,000,000</b>	<b>P393,606,397</b>	<b>P823,769</b>	<b>P1,144,430,166</b>

See Notes to Financial Statements.

**MERITUS PRIME DISTRIBUTIONS, INC.**  
**(A Wholly-owned Subsidiary of Cosco Capital, Inc.)**

**STATEMENTS OF CASH FLOWS**

	Years Ended December 31		
		2019	2018 (As restated - see Note 22)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax		P90,713,947	P83,150,401
Adjustments for:			
Interest expense	12, 13, 16	14,785,316	1,163,628
Depreciation and amortization	9, 16	3,883,119	4,028,554
Retirement benefits costs	17	211,090	220,129
Interest income	5	(187,919)	(1,763,212)
Unrealized foreign exchange loss (gain) - net		1,690	(21,409)
Operating income before working capital changes		109,407,243	86,778,091
Decrease (increase) in:			
Trade and other receivables		(124,761,457)	82,472,295
Inventories		(155,593,796)	62,971,332
Prepaid expenses and other current assets		2,159,286	(108,449,620)
Decrease in trade and other payables		(18,515,943)	(2,874,340)
Cash generated from (used in) operations		(187,304,667)	120,897,758
Income taxes paid		(24,471,101)	(21,004,133)
Retirement benefits paid	17	(132,500)	-
Interest received	5	187,919	1,763,212
Net cash from (used in) operating activities		(211,720,349)	101,656,837
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions to property and equipment	9	(33,348)	(25,329)
Increase in refundable deposits	10	(9,144)	(31,626)
Cash used in investing activities		(42,492)	(56,955)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from availment of loans payable	21	394,000,000	-
Payments of:			
Loans payable	21	(98,000,000)	(100,000,000)
Dividends	14, 21	(75,000,000)	-
Interest on loans	12, 21	(13,815,902)	(885,698)
Lease liabilities	16	(3,312,172)	(3,197,307)
Advances from parent company	13, 21	-	(20,000,000)
Net cash from (used in) financing activities		203,871,926	(124,083,005)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>			
		(P12,321)	P22,246
<b>NET DECREASE IN CASH</b>		(7,903,236)	(22,460,877)
<b>CASH AT BEGINNING OF YEAR</b>		52,180,421	74,641,298
<b>CASH AT END OF YEAR</b>	5	P44,277,185	P52,180,421

See Notes to Financial Statements.



**MERITUS PRIME DISTRIBUTIONS, INC.**  
**(A Wholly-owned Subsidiary of Cosco Capital, Inc.)**

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**NOTES TO FINANCIAL STATEMENTS**

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**1. Reporting Entity**

Meritus Prime Distributions, Inc. (the "Company") was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on February 17, 2010 to engage primarily in buying, selling, importing, exporting, manufacturing, repackaging, preparing, bottling, and distribution on wholesale of all kinds of wines, spirits, liquors, beers, and other alcoholic and non-alcoholic beverages and drinks.

The Company is a wholly-owned subsidiary of Cosco Capital, Inc. ("Cosco" or "Parent Company"), a company incorporated in the Philippines. Cosco is the ultimate Parent Company and its shares of stock are listed for trading at the Philippine Stock Exchange (PSE).

The Company's registered office address is at Unit 704 Federal Tower, Dasmarina St., Binondo, Manila.

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**2. Basis of Preparation**

Statement of Compliance

The financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). PFRS which are issued by the Philippine Financial Reporting Standards Council (FRSC), consist of PFRS, Philippine Accounting Standards (PAS), and Philippine Interpretations based on the International Financial Reporting Interpretations Committee (IFRIC) interpretations.

This is the first set of the Company's annual financial statements in which PFRS 16, *Leases*, has been applied. Changes to significant accounting policies are described in Note 3.

Basis of Measurement

The financial statements have been prepared on the historical cost basis of accounting except for the retirement benefits liability which is measured at the present value of the defined benefits obligation.

Functional and Presentation Currency

The financial statements are measured using the currency of the primary economic environment in which the Company operates. The financial statements are presented in Philippine peso, which is also the Company's functional currency. All amounts are rounded to the nearest peso, except when otherwise indicated.

Authorization for Issuance of the Financial Statements

The accompanying financial statements of the Company as at and for the years ended December 31, 2019 and 2018 were approved and authorized for issue by the Company's Board of Directors (BOD) on June 9, 2020.

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### 3. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in these financial statements, except for the changes in accounting policies as explained below.

#### Adoption of New or Revised Standards, Amendments to Standards and Interpretations

The Company has adopted the following new standard starting January 1, 2019 and accordingly, changed its accounting policies.

- PFRS 16, *Leases* supersedes PAS 17, *Leases* and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance, and new disclosure requirements.

Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification, and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were introduced.

The Company applied PFRS 16 using the retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings as at January 1, 2018. Accordingly, the comparative information presented, as at and for the year ended December 31, 2018, is restated.

The Company used the following practical expedients when applying PFRS 16 to leases previously classified as operating leases under PAS 17:

- Applied a single discount rate to a portfolio of leases with similar characteristics;
- Applied the exemption not to recognize right-of-use assets and lease liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- Excluded initial direct costs from measuring the right of-use asset at the date of initial application; and
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

#### *Impact on Financial Statements*

In transition to PFRS 16 on January 1, 2019 using the retrospective approach, the Company recognized right-of-use assets and lease liabilities on the commencement date of the lease agreement. Consequently, the cumulative effect of the transition was recognized on January 1, 2018. The impact on transition as at January 1, 2018 is presented in notes for prior period restatement (see Note 22)

As at January 1, 2018, the Company recognized ROU assets and lease liabilities amounting to P8,214,934 and P8,852,809, respectively. As at December 31, 2019 and 2018, the carrying amounts of ROU assets and lease liabilities are as follows:

	<i>Note</i>	2019	2018
ROU Assets - net	16	P2,458,959	P5,336,946
Lease liabilities	16	2,913,534	6,009,939

When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate as of date of lease commencement date. The weighted average rate applied is 4.74%.

The Company has also adopted the following amendments to standards and interpretations which did not have any significant impact on the Company's financial statements.

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*
- PFRS 9, *Financial Instruments - Prepayment Features with Negative Compensation (Amendments)*
- PAS 19, *Employee Benefits - Plan Amendment, Curtailment or Settlement (Amendments)*
- Annual Improvements to PFRS Standards 2015-2017 Cycle - various standards

#### Financial Instruments

##### *Date of Recognition*

The Company recognizes a financial asset or a financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases and sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

##### *Initial Recognition of Financial Instruments*

Financial instruments are recognized initially at fair value. The initial measurement of financial instruments, except for those financial assets and financial liabilities classified or designated at fair value through profit or loss (FVTPL), includes transaction costs.

##### *Classification and Measurement of Financial Instruments*

On initial recognition, the Company classifies its financial assets in the following categories: measured at amortized cost, financial assets at FVTPL and financial assets at FVOCI. The classification depends on the business model for managing the financial assets and the contractual terms of its cash flows.

The Company classifies its financial liabilities as either financial liabilities at amortized cost or financial liabilities at FVTPL. The Company classifies all financial liabilities at amortized cost, except for:

- (a) financial liabilities designated by the Company at initial recognition as at FVTPL, when doing so results in more relevant information.
- (b) financial liabilities that arise when the transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.
- (c) contingent consideration recognized by the Company in a business combination which shall subsequently be measured at fair value with changes recognized in profit or loss.

- (d) financial guarantee contracts and commitments to provide a loan at a below market interest rate which are initially measured at fair value and subsequently at higher of amortized amount and amount of loss allowance.

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

#### *Business Model Assessment*

The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated - e.g., whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

#### *Solely Payments of Principal and Interest Assessment*

Principal is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers contingent events that would change the amount or timing of cash flows, terms that may adjust the contractual coupon rate, including variable-rate features, prepayment and extension features, and terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse features).

The Company has no financial assets classified as financial assets at FVTPL and FVOCI as at December 31, 2019.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.



#### *Financial Assets at Amortized Cost*

A financial asset is measured at amortized cost if it is held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

Included in this category are the Company's cash in banks, trade and other receivables and refundable deposits.

#### *Financial Liabilities at Amortized Cost*

This category pertains to financial liabilities that are not held for trading or designated as at FVTPL upon inception of the liability. These include liabilities arising from operations or borrowings. The financial liabilities are recognized initially at fair value and subsequently carried at amortized cost, taking into account the impact of applying the effective interest rate method of amortization for any related premium, discount and any directly attributable transaction costs. These financial liabilities are included in current liabilities if maturity is within twelve months from reporting date. Otherwise, these are classified as noncurrent liabilities.

This category includes the Company's trade and other payables (excluding statutory obligations), dividends payable, loans payable and lease liabilities as at December 31, 2019 and 2018.

#### Impairment of Financial Assets

The Company measures loss allowances at an amount equal to lifetime ECLs, except for debt securities that are determined to have low credit risk at the reporting date and other debt securities and bank balances for which credit risk has not increased significantly since initial recognition, which are measured at 12-month ECLs.

Loss allowances for trade and other receivables is always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due. The Company considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security (if any is held) or the financial asset is more than 90 days past due on any material credit obligation to the Company.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. The 12-month ECLs are a portion of lifetime ECLs that represents the ECLs resulting from default events on the financial instrument that are possible within 12 months after the reporting date or a shorter period if the expected life of the instrument is less than 12 months.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

ECLs are probability weighted-estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Company assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the significant financial difficulty of the borrower or issuer, a breach of contract such as default, the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise, when it is probable that the borrower will enter bankruptcy or other financial reorganization, or the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

Financial assets are written off when there is no reasonable expectation of recovery. The Company categorizes financial assets recorded at amortized cost for write off when a debtor fails to make payments or when it is probable that the receivable will not be collected. Where amortized cost financial assets have been written off, the Company continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognized in profit or loss.

#### Derecognition of Financial Assets and Financial Liabilities

##### *Financial Assets*

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

- the rights to receive cash flows from the asset have expired;
- 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 rewards of the asset; or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards 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 is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

### *Financial Liabilities*

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. The difference in the respective carrying amounts is recognized in profit or loss.

### Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is 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. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

### Fair Value Measurement

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 measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to the Company.

The fair value of an asset or a liability is measured using the assumptions that the market participants would use when pricing the asset or liability, assuming that the market participants act in their economic best interest.

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 markets 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 reassessing 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.



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### Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization and any impairment in value. The initial cost of items of property and equipment consists of its purchase price, including import duties and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to profit or loss in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of the item of property and equipment.

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

	Number of Years
Transportation and delivery equipment	5
Furniture and fixtures	2
Office equipment	2
Leasehold improvements	3 or lease term, whichever is shorter

Depreciation and amortization of an item of property and equipment begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation or amortization ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, and the date the asset is derecognized.

The estimated useful lives and depreciation and amortization method are reviewed periodically to ensure that the periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation is recognized in the profit or loss. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and any impairment in value are removed from the accounts and any resulting gain or loss is recognized in profit or loss.

### Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. The capitalization of borrowing costs: (i) commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred; (ii) is suspended during the extended periods in which active development, improvement and construction of the assets are interrupted; and (iii) ceases when substantially all the activities necessary to prepare the assets are completed. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds.

Other borrowing costs are recognized as expense in the period in which they are incurred.

#### Impairment of Noncurrent Nonfinancial Assets

The Company assesses at end of each reporting period whether there is indication that its noncurrent nonfinancial assets which include property and equipment may be impaired. If any such indication exists and where the carrying amount exceeds the estimated recoverable amount, the assets or the cash generating unit (CGU) are written down to their recoverable amounts. The recoverable amount of the nonfinancial assets is the greater of fair value less cost to sell and value-in-use. The fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's length transaction. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs. Impairment losses, if any, are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation and amortization charge are adjusted in future periods to allocate the asset's revised carrying amount on a systemic basis over its remaining useful life.

#### Capital Stock

Ordinary or Common shares are classified as equity. The proceeds from the issuance of ordinary or common shares are presented in equity as capital stock to the extent of the par value of the issued and outstanding shares and any excess of the proceeds over the par value of the shares issued, less any incremental costs directly attributable to the issuance, net of tax, is presented in equity as additional paid-in capital.

#### Retained Earnings

Retained earnings represent the cumulative balance of periodic net income or loss, dividend contributions, correction of prior year errors, effect of changes in accounting policy and other capital adjustments.

#### Dividends on Common Shares

Cash dividends on common shares are recognized as liability and deducted from equity when approved by the BOD of the Company. Stock dividend declared but not yet issued is presented as "Capital stock dividend distributable" in the statement of financial position. When the stock dividends are declared, the amount of stock dividends are treated as transfers from retained earnings to common shares.

Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date.

### Revenue Recognition

Revenue from contracts with customers is recognized upon transfer of goods to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods.

The following specific recognition criteria must also be met before revenue is recognized:

#### *Sale of Goods*

Revenue is recognized at the point in time when control of the asset is transferred to the customer, generally upon delivery. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized. Revenue is recognized net of variable consideration such as discounts, rebates, listing and slotting fees/display allowances and certain payments to customers post the initial sale of goods.

#### *Interest Income*

Interest income is recognized in profit or loss as it accrues, taking into account the effective yield on the asset.

### Cost and Expense Recognition

#### *Cost of Goods Sold*

Cost of goods sold is recognized when goods are shipped to the buyer. Expenses are recognized upon utilization of services or at the date they are incurred.

#### *Operating Expenses*

Operating expenses are costs incurred to sell or distribute the goods and administering the business. It includes documentation processing and delivery, among others. Operating expenses are expensed as incurred.

#### Other Comprehensive Income

Other comprehensive income 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 year in accordance with PFRS.

### Employee Benefits

#### *Short-term Employee Benefits*

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of the past service provided by the employee and the obligation can be estimated reliably.

#### *Retirement Benefits Liability and Costs*

The Company has an unfunded, noncontributory defined benefits retirement plan covering substantially all permanent, regular and full-time employees. The Company's obligation in respect of the defined benefits is calculated by estimating the amount of the future benefits that employees have earned in the current and prior period and discounting that amount.

The calculation of defined benefits obligations is performed on a periodic basis by a qualified actuary using the projected unit credit method.

Remeasurements of the retirement benefits liability, which comprise of actuarial gains and losses, are recognized immediately in other comprehensive income. The Company determines the interest expense on the retirement benefits liability for the period by applying the discount rate used to measure the retirement benefits liability at the beginning of the annual period to the then retirement benefits liability, taking into account any changes in the retirement benefits liability during the period as a result of benefit payments, if any. Interest expense and other expenses related to defined benefits plans are recognized in profit or loss.

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

#### Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- the contract involves the use of an identified asset - this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and,
- the Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Company has the right to direct the use of the asset if either:
  - the Company has the right to operate the asset; or
  - the Company designed the asset in a way that predetermines how and for what purpose it will be used.

This policy is applied to contracts entered into, or changed, on or after January 1, 2019.

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

#### *Company as Lessee*

The Company recognizes a ROU asset and a lease liability at the lease commencement date. The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for accrued rent payable at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.



The ROU asset is subsequently amortized using the straight-line method from the commencement date to the end of the lease term unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the ROU asset reflects that the Company will exercise a purchase option. In that case, the ROU asset will be amortized over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the ROU asset is periodically reduced by impairment loss, if any, and adjusted for certain remeasurements of the lease liability. The ROU asset is presented as a separate line item in the statement of financial position.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following: (a) fixed payments, including in-substance payments; (b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date; (c) amounts expected to be payable under a residual value guarantee; and, (d) the exercise price under a purchase option the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise and extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate; if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee; or, if the Company changes its assessment of whether it will exercise a purchase, extension, or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the ROU asset, or is recorded in profit or loss if the carrying amount of the ROU asset has been reduced to zero.

The Company has presented interest expense on the lease liability separately from the depreciation charge for the ROU asset. The interest expense on lease liability is presented under "Costs and expenses" in profit or loss.

#### Income Taxes

Provision for income tax is composed of current income tax and deferred income tax. Provision for income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income, in which case, it is recognized directly in equity or in other comprehensive income.

#### *Current Income Tax*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used as basis to compute the amount are those that have been enacted or substantively enacted at the reporting date.

#### *Deferred Income Tax*

Deferred income tax is provided, using the balance sheet liability method, 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 income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences can be utilized.

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

Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

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

#### Related Party Transactions and Relationships

Related party relationships exist when the party has the ability to control, directly or indirectly, through one or more intermediaries, or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting entity and its key management personnel, directors or stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely to the legal form. Related parties may be individual or corporate entities.

#### Foreign Currency Denominated Transactions and Translation

Transactions in foreign currencies are recorded using the functional currency exchange rate at the date of transaction. Outstanding monetary assets and monetary liabilities denominated in foreign currencies are translated using the closing exchange rate at the reporting date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

#### Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of the provision to be reimbursed, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss, net of reimbursement. If the effect of the time value of money is material, provisions are discounted using the current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.



### Contingencies

Contingent liabilities are not recognized in the financial statements but are disclosed in the notes to financial statements unless the outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but 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 position at the reporting date (adjusting events) are reflected in the financial statements. Events after the reporting date that are not adjusting events are disclosed in the notes to financial statements when material.

### Standards Issued but Not Yet Adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2019. However, the Company has not applied the following relevant and applicable new or amended standards and interpretations in preparing these financial statements. Unless otherwise stated, none of these are expected to have a significant effect on the Company's financial statements.

The Company plans to adopt the following new or amended standards and interpretations on the respective effective dates, as applicable.

#### *Effective January 1, 2020*

- *Amendments to References to Conceptual Framework in PFRS Standards* sets out amendments to PFRS Standards, their accompanying documents and PFRS practice statements to reflect the issuance of the revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework). The 2018 Conceptual Framework includes a new chapter on measurement, guidance on reporting financial performance, improved definitions of an asset and a liability and guidance supporting these definitions, and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Some Standards, their accompanying documents and PFRS practice statements contain references to, or quotations from, the International Accounting Standards Committee (IASB)'s Framework for the Preparation and Presentation of Financial Statements adopted by the International Accounting Standards Board (IASB) in 2001 or the Conceptual Framework for Financial Reporting issued in 2010. The amendments update some of those references and quotations so that they refer to the 2018 Conceptual Framework, and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

The Company plans to adopt the amendments to standard on the required effective date.

- PAS 1, *Presentation of Financial Statements* and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Material (Amendments)* refine the definition of material. The amended definition of material states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify the definition of material and its application by:
  - (a.) raising the threshold at which information becomes material by replacing the term “could influence” with “could reasonably be expected to influence”;
  - (b.) including the concept of “obscuring information” alongside the concept of “omitting” and “misstating” information in the definition;
  - (c.) clarifying that the users to which the definition refers are the primary users of general purpose financial statements referred to in the Conceptual Framework;
  - (d.) clarifying the explanatory paragraphs accompany the definition; and
  - (e.) aligning the wording of the definition of material across PFRS Standards and other publications.

The amendments are expected to help entities make better materiality judgments without substantively changing existing requirements.

The amendments apply prospectively. Earlier application is permitted.

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#### 4. Management’s Use of Judgments, Accounting Estimates, and Assumptions

The preparation of the financial statements in accordance with PFRS requires management to exercise judgments, make accounting estimates and use assumptions that affect reported amounts of assets, liabilities, income and expenses and related disclosures. Future events may occur which will cause the assumptions used in arriving at the accounting estimates to change. The effects of any change in accounting estimates are reflected in the financial statements as they become reasonably determinable.

Accounting judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

##### Judgments

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

##### *Determination of the Company’s Functional Currency*

The Company considers factors, including but not limited to, the currency that mainly influences sales prices of its goods and the currency in which receipts from operating activities are usually retained. Based on the economic substance of the underlying circumstances relevant to the Company, the functional currency has been determined to be the Philippine peso. It is the currency that mainly influences the Company’s operations.



#### *Recognition of Revenue*

The Company uses its judgment in determining the timing of the transfer of control on the goods that it delivered. The Company determined that the control is transferred for sale of goods when the Company has transferred physical possession of the goods and obtained the right to payment for the goods which is upon the customer's acceptance of the goods at the customer's warehouse.

#### Accounting Estimates and Assumptions

The key estimates and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below:

#### *Allowance for Impairment Losses on Trade and Other Receivables and Refundable Deposits*

The Company uses the expected credit loss model in estimating the level of allowance which includes forecasts of future events and conditions. A credit loss is measured as the present value of all cash shortfalls (the difference between the cash flows that the Company expects to receive). The model represents a probability-weighted estimate of the difference over the remaining life of the receivables. The maturity of the Company's receivables is less than one year so the lifetime expected credit loss and the 12-month expected credit losses are similar. In addition, management assessed that the credit risk for its trade and other receivables and refundable deposits as at the reporting date are low as discussed in Note 19, therefore the Company did not have to assess whether a significant increase in credit risk has occurred. An increase in the allowance for impairment losses would increase the recorded operating expenses and decrease current assets.

The Company uses an allowance matrix to measure the ECLs of its trade receivables from individual customers. Loss rates are calculated using a "roll rate" method based on the probability of a receivable progressing through successive stages of delinquency to write-off. The loss rates computed were based on actual credit loss experience over the last three years. As the profile of the Company's trade receivables is substantially current and past due trade receivables are no more than one year, the computed estimated allowance using the loss rates is not significant to the Company's financial statements.

The combined carrying amounts of the Company's trade and other receivables and refundable deposits are P379,911,266 and P255,140,665 as at December 31, 2019 and 2018, respectively (see Notes 6, 10 and 19).

#### *Determination of Net Realizable Value (NRV) of Inventories*

The Company's estimates of the NRV of inventories are based on the most reliable evidence available at the time the estimates are made, of the amount that the inventories are expected to be realized. These estimates consider the inventory obsolescence, physical deterioration, fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. A new assessment is made at NRV in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is a clear evidence of an increase in NRV because of changes in economic circumstances, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised NRV.

The carrying amounts of inventories as at December 31, 2019 and 2018 are P717,189,440 and P561,595,644, respectively (see Note 7). No allowance to reduce inventory to NRV was recognized in 2019 and 2018.

#### *Estimation of Useful Lives of Property and Equipment*

The Company estimates the useful lives of property and equipment based on the period over which these 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 asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible that future financial performance could be materially affected by changes in these estimates brought about by changes in the factors mentioned. Any reduction in the estimated useful lives of the property and equipment would increase depreciation and amortization expense and decrease noncurrent assets.

The estimated useful life of property and equipment is discussed in Note 3 to financial statements. There is no change in the estimated useful life of property and equipment in 2019 and 2018.

The carrying amounts of property and equipment as at December 31, 2019 and 2018 amounted to P924,248 and P1,896,032, respectively (see Note 9).

#### *Estimation of Retirement Benefits Liability and Costs*

The cost of defined benefits retirement plans, as well as the present value of the retirement benefits obligation, is determined using actuarial valuations. The actuarial valuations involve making various assumptions. These include the determination of the discount rates, and future salary increases, among others. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefits obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting period.

The Company has retirement benefits liability amounting to P760,153 and P764,908 as at December 31, 2019 and 2018, respectively (see Note 17).

#### *Recognition of Deferred Income Tax Assets*

The Company reviews its deferred income tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. The Company also reviews the expected timing and tax rates upon reversal of temporary differences and adjusts the impact on deferred income tax accordingly. The Company's assessment on the recognition of deferred income tax assets is based on the forecasted taxable income of the subsequent reporting periods. This forecast is based on the Company's past results and future expectations on revenues and expenses. While the Company believes that its assumptions are appropriate and reasonable, significant changes in these assumptions may materially affect the Company's assessment of the realizability of deferred income tax assets and may lead to future addition to the provision for deferred income tax.

The Company has recognized deferred income tax assets amounting to P855,851 and P876,124 as at December 31, 2019 and 2018, respectively (see Note 18).



## 5. Cash

This account consists of:

	<i>Note</i>	2019	2018
Cash on hand		<b>P164,000</b>	P191,000
Cash in banks	19	<b>44,113,185</b>	51,989,421
		<b>P44,277,185</b>	P52,180,421

Cash in banks earns interest at the respective bank deposit rates.

Interest income recognized in profit or loss amounted to P187,919 and P1,763,212 in 2019 and 2018, respectively.

## 6. Trade and Other Receivables

This account consists of:

	<i>Note</i>	2019	2018
Trade:			
Related parties	13	<b>P247,536,614</b>	P167,548,864
Third parties		<b>65,462,999</b>	55,195,223
Non-trade		<b>67,344,199</b>	32,699,199
Receivable from employees		<b>188,296</b>	327,365
	19	<b>380,532,108</b>	255,770,651
Less allowance for impairment losses on trade receivables		<b>1,503,922</b>	1,503,922
	19	<b>P379,028,186</b>	P254,266,729

The Company's trade receivables are non-interest-bearing and are generally on a 30 to 60-day credit term.

Non-trade receivables pertain to receivables from suppliers for the reimbursements of expenses made by the Company for brand promotions. These are non-interest-bearing and are generally on a 30-day credit term.

## 7. Inventories

This account consists of:

	<i>Note</i>	2019	2018
At cost:			
Spirits		<b>P668,311,496</b>	P521,809,925
Wines		<b>48,877,944</b>	39,785,719
	15	<b>P717,189,440</b>	P561,595,644

Cost of goods sold recognized in profit or loss amounted to P780,137,292 and P722,487,888 in 2019 and 2018, respectively (see Note 15).

## 8. Prepaid Expenses and Other Current Assets

This account consists of:

	2019	2018
Advances to suppliers	P325,526,836	P303,986,181
Prepaid expenses:		
Duties and taxes	14,055,381	46,430,770
Input VAT	7,143,422	-
Other import charges	885,411	34,537
Others	882,152	201,000
	<b>P348,493,202</b>	<b>P350,652,488</b>

Advances to suppliers pertain to partial down payment made by the Company to suppliers and will be applied against future progress billings.

## 9. Property and Equipment

The movements and balances in this account are as follows:

	Transportation and Delivery Equipment	Furniture and Fixtures	Office Equipment	Leasehold Improvements	Total
Cost					
December 31, 2017	P8,953,451	P1,051,430	P560,377	P1,794,809	P12,360,067
Additions	-	20,955	4,374	-	25,329
December 31, 2018	8,953,451	1,072,385	564,751	1,794,809	12,386,386
Additions	-	-	33,348	-	33,348
December 31, 2019	8,953,451	1,072,385	598,099	1,794,809	12,418,744
Accumulated Depreciation and Amortization					
December 31, 2017	6,254,904	805,523	483,562	1,794,809	9,338,798
Depreciation and amortization	922,269	174,105	54,192	-	1,150,566
December 31, 2018	7,177,173	979,628	537,754	1,794,809	10,489,364
Depreciation and amortization	886,452	90,834	27,846	-	1,005,132
December 31, 2019	8,063,625	1,070,462	565,600	1,794,809	11,494,496
Carrying Amounts					
December 31, 2018	P1,776,278	P92,757	P26,997	P -	P1,896,032
December 31, 2019	P889,826	P1,923	P32,499	P -	P924,248

Depreciation and amortization expense for the years ended December 31, 2019 and 2018 were charged as part of operating expenses.

Fully depreciated property and equipment that are still being used by the Company have a total cost of P9,712,032 and P7,427,899 as at December 31, 2019 and 2018, respectively.

## 10. Refundable Deposits

This account consists of:

	Note	2019	2018
Security deposits	16	P715,229	P706,085
Others		167,851	167,851
	19	<b>P883,080</b>	<b>P873,936</b>



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## 11. Trade and Other Payables

This account consists of:

	<b>Note</b>	<b>2019</b>	<b>2018</b>
Trade payables	19	<b>P11,226,047</b>	P8,137,340
Nontrade payables:			
Third parties	19	<b>19,534,167</b>	30,292,247
Related parties	13, 19	<b>1,511,480</b>	1,086,113
Accrued expenses	19	<b>686,733</b>	389,768
Statutory obligations		<b>511,203</b>	868,348
Output VAT - net		-	10,538,341
Others	19	<b>322,016</b>	252,416
		<b>P33,791,646</b>	P51,564,573

Trade payables are non-interest-bearing and are generally on a 30 to 60-day payment term.

Non-trade payables are amounts owed to non-trade suppliers such as manpower agencies, freight companies, interest payable on loans and other non-trade transactions. These are non-interest-bearing and are generally on a 30-day payment term, except for related party balance which is due on demand.

Accrued expenses consist mainly of accruals for utilities and other operating charges.

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## 12. Loans Payable

In 2019, the Company entered into various unsecured, short-term loans with a maturity of less than one year from Metropolitan Bank and Trust Company and Asia United Bank totaling to P81,000,000 with a fixed annual interest of 4.50% to 5.50% and P215,000,000 with fixed annual interest of 4.75% to 6.00%, respectively. The proceeds from these loan availments were intended to finance the Company's working capital requirements.

Interest expense recognized in profit or loss relating to these loans amounted to P14,569,549 and P750,191 in 2019 and 2018, respectively. As at December 31, 2019, outstanding interest payable related to these loans recorded as part of "Non-trade payables" under "Trade and other payables" account in the statement of financial position amounted to P753,647 (see Note 11).

### 13. Related Party Transactions

Transactions and account balances with related parties as at and for the years ended December 31 are as follows:

Category	Year	Note	Transactions During the Year	Outstanding Balance		Terms	Conditions
				Trade Receivables	Nontrade Payable		
Parent Company							
• Interest	2019		P -	P -	P -	Monthly	Unsecured
	2018		59,000	-	-		
Entities under Common Control							
• Sale of goods	2019	6, a	734,974,442	247,536,614	-	30 days credit term;	Unsecured;
	2018	6, a	698,465,965	167,548,864	-	non-interest-bearing	no impairment
• Lease expense	2019	16, b	3,093,754	-	-	Monthly; non-interest-bearing	Unsecured
	2018	16, b	3,232,425	-	-	Monthly; non-interest-bearing	Unsecured
• Advances	2019	11, c	1,511,480	-	1,511,480	Due on demand;	Unsecured
	2018	11, c	1,086,113	-	1,086,113	non-interest bearing	
	<b>2019</b>			<b>P247,536,614</b>	<b>P1,511,480</b>		
	<b>2018</b>			<b>P167,548,864</b>	<b>P1,086,113</b>		

- In the normal course of business, the Company distributes wines and liquors to entities under common control.
- The Company entered into lease agreements with an entity under common control for its office space and warehouse (see Note 16).
- Cash advances obtained from entities under common control for working capital requirements.
- In 2018, the Company paid advances from parent company amounted to P20,000,000. No new advances were made in 2019.
- There is no key management compensation since the key management roles are functionally domiciled under the Parent Company.

Amounts owed by and owed to related parties are to be settled in cash.

### 14. Equity

#### Capital Stock

The balances as at December 31, 2019 and 2018 are as follows:

	Number of Shares	Amount
<b>Authorized</b>		
P100 par value	7,500,000	P750,000,000
<b>Issued and Outstanding</b>		
Balance at beginning and end of year	7,500,000	P750,000,000

Ordinary shares carry one vote per share and a right to dividends.

#### Declaration of Dividends

On November 28, 2017, the Company's BOD approved the declaration of cash dividends of P6.67 per share or an aggregate amount of P50,000,000, payable to stockholders of record as of the same date.

On December 18, 2018, the Company's BOD approved the declaration of cash dividends of P3.33 per share or an aggregate amount of P25,000,000, payable to stockholders of record of the same date.

All outstanding dividends were paid in 2019.

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#### 15. Cost of Goods Sold

This account consists of:

	<i>Note</i>	2019	2018
Inventory at beginning of year		P561,595,644	P624,566,976
Add: Net purchases		935,731,088	659,516,556
Total goods available for sale		1,497,326,732	1,284,083,532
Less: Inventory at end of year	7	717,189,440	561,595,644
		P780,137,292	P722,487,888

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#### 16. Lease Agreements

##### Company as Lessee

- a. The Company entered into a lease agreement with an entity under common control for a warehouse. The term of the lease is for a period of five (5) years from January 1, 2016 to December 31, 2020. The lease has an annual escalation rate of 5%.
- b. The Company entered into a lease agreement with an entity under common control for a warehouse with a lease term of three (3) years commencing on July 1, 2015 to June 30, 2017. The lease agreement was renewed for another three (3) years from July 1, 2017 to June 30, 2020.

On transition to PFRS 16, the Company recognized retrospectively ROU assets and lease liabilities in relation to lease agreements (a) and (b). As at January 1, 2018, the ROU assets and lease liabilities recognized amounted to P8,214,934 and P8,852,809, respectively.

The movement of the ROU assets and lease liabilities for the years ended December 31, 2019 and 2018 are as follows:

##### i. Right-of-Use Assets

	<i>Note</i>	2019	2018 (As restated - see Note 22)
Balance at beginning of year		P5,336,946	P8,214,934
Amortization charge for the year	13	(2,877,987)	(2,877,988)
Balance at end of year		P2,458,959	P5,336,946

ii. Lease Liabilities

	Note	2019	2018 (As restated - see Note 22)
Balance at beginning of year		P6,009,939	P8,852,809
Interest charge for the year	13	215,767	354,437
Payments made		(3,312,172)	(3,197,307)
Balance at end of year		P2,913,534	P6,009,939

Maturity analyses of the undiscounted lease liabilities as at December 31, 2019 and 2018 are as follows:

	Undiscounted Lease Payments	Interest	Present Value of Lease Liabilities
Not later than one year	P2,982,781	P69,247	P2,913,534

	Undiscounted Lease Payments	Interest	Present Value of Lease Liabilities
Not later than one year	P3,312,172	P215,767	P3,096,405
Later than one year but not later than five years	2,982,781	69,247	2,913,534
Balance at December 31, 2019	P6,294,953	P285,014	P6,009,939

As at December 31, 2019 and 2018, the Company's lease liabilities are classified in the statements of financial positions as follows:

	2019	2018 (As restated - see Note 22)
Current	P2,913,534	P3,096,405
Noncurrent	-	2,913,534
	P2,913,534	P6,009,939

iii. Amounts recognized in profit or loss

	2019	2018 (As restated - see Note 22)
Interest on lease liabilities	P215,767	P354,437
Amortization expense	2,877,987	2,877,988
	P3,093,754	P3,232,425

iv. Amounts recognized in the statement of cash flows

	2019	2018 (As restated - see Note 22)
Total cash outflow for leases	<b>P3,312,172</b>	P3,197,307

The lease agreements provide for, among others, security deposits amounting to P715,229 and P706,085 as at December 31, 2019 and 2018, respectively, which are shown under "Refundable deposits" account in the statements of financial position (see Note 10).

### 17. Retirement Benefits Liability

The Company has an unfunded, noncontributory, defined benefits retirement plan covering all of its permanent, regular, and full-time employees. Costs are determined in accordance with the actuarial studies made for the plan. Under the plan, the employees are entitled to retirement benefits equivalent to an amount computed based on Republic Act No. 7641, *Retirement Pay Law*, equivalent to one-half month's salary for every year of service, with six months or more of service considered as one year.

Costs are determined in accordance with the actuarial studies made for the plan. Annual cost is determined using the projected unit credit method. The Company's latest actuarial valuation date is December 31, 2019.

The succeeding tables summarize the components of retirement benefits cost under a defined benefits retirement plan recognized in profit or loss and the amount of retirement benefits liability recognized in the statements of financial position.

	2019	2018
<b>Balance at beginning of year</b>	<b>P764,908</b>	P1,491,441
<b>Recognized in profit or loss</b>		
Interest cost	57,598	80,240
Current service cost	153,492	139,889
	211,090	220,129
<b>Recognized in other comprehensive income</b>		
Actuarial gain arising from:		
Financial assumptions	438,219	(266,274)
Demographic assumptions	(862,118)	(253,953)
Experience adjustments	340,554	(426,435)
	(83,345)	(946,662)
Benefits paid	(132,500)	-
<b>Balance at end of year</b>	<b>P760,153</b>	P764,908

The retirement benefits cost is recognized as part of "Salaries and other employee benefits" account under operating expenses in profit or loss.

The plan exposes the Company to actuarial risks such as interest rate risk, longevity risk and salary risk as follows:

#### *Interest Risk*

The present value of the defined benefits obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation.

#### *Longevity and Salary Risks*

The present value of the defined benefits obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

The principal actuarial assumptions used to determine retirement benefits in 2019 and 2018 are as follows:

	2019	2018
Discount rate	5.21%	7.53%
Future salary increases	8.00%	3.00%

Assumptions for mortality and disability rates are based on published statistics and mortality and disability tables.

The weighted average duration of defined benefits obligation is 13.4 and 13.2 years as at December 31, 2019 and 2018, respectively.

As at December 31, the reasonably possible changes to one of the relevant actuarial assumptions, while holding all other assumptions constant, would have affected the defined benefits liability by the amounts below:

	2019		2018	
	1 Percent Increase	1 Percent Decrease	1 Percent Increase	1 Percent Decrease
Discount rate	(P47,206)	P32,002	(P65,247)	P49,948
Salary increase rate	68,414	(53,211)	30,596	(15,298)

Although the analysis does not take into account the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumption shown.

#### *Funding Arrangements*

The plan is unfunded and non-contributory. Benefit claims under the defined benefits retirement obligation are paid directly by the Company when they become due.

#### *Asset-Liability Matching (ALM)*

The Company does not perform any ALM study. The Company has no plan assets to match against liabilities under the retirement benefits obligation.



Maturity analysis based on a ten (10) year projection of the expected future benefit payments is as follows:

	December 31, 2019				
	Carrying Amount	Contractual Cash Flows	Within 1 Year	Within 1-5 Years	More than 5 Years
Retirement benefits liability	P760,153	P1,147,119	P -	P363,968	P783,151

	December 31, 2018				
	Carrying Amount	Contractual Cash Flows	Within 1 Year	Within 1-5 Years	More than 5 Years
Retirement benefits liability	P764,908	P783,151	P -	P -	P783,151

#### 18. Income Taxes

The components of provision for income tax are shown below:

	2019	2018
Current	P28,667,685	P25,970,854
Deferred	(4,731)	(78,356)
	P28,662,954	P25,892,498

The current provision for income tax represents regular corporate income tax (RCIT) in both years.

The reconciliation of the provision for income tax computed at the statutory income tax rate and the provision for income tax shown in profit or loss for the years ended December 31 is as follows:

	2019	2018
Income before income tax	P90,713,947	P83,150,401
Provision for income tax at the statutory income tax rate of 30%	P27,214,184	P24,945,120
Additions to (reductions from) income taxes resulting to the tax effects of:		
Non-deductible expenses	1,505,146	1,476,341
Interest income subjected to final tax	(56,376)	(528,963)
Provision for income tax	P28,662,954	P25,892,498



The components of the Company's net deferred income tax assets are as follows:

	Net Balance at December 31, 2018 (as restated)	Recognized During the Year	Net Balance at December 31, 2019
Deferred income tax assets (liability) recognized in profit or loss:			
Retirement benefits liability	P557,513	P63,327	P620,840
Allowance for impairment on trade receivables	451,177	-	451,177
PFRS 16, <i>Leases</i> adjustment	201,897	(65,526)	136,371
Unrealized foreign exchange loss (gain) - net	(6,423)	6,930	507
	1,204,164	4,731	1,208,895
Deferred income tax liability recognized directly in other comprehensive income:			
Retirement benefits liability	(328,040)	(25,004)	(353,044)
Deferred income tax assets - net	P876,124	(P20,273)	P855,851

	Net Balance at December 31, 2017 (as restated)	Recognized During the Year	Net Balance at December 31, 2018 (as restated)
Deferred income tax assets (liability) recognized in profit or loss:			
Retirement benefits liability	P491,474	P66,039	P557,513
Allowance for impairment on trade receivables	451,177	-	451,177
PFRS 16, <i>Leases</i> adjustment	191,362	10,535	201,897
Unrealized foreign exchange loss (gain) - net	(8,205)	1,782	(6,423)
	1,125,808	78,356	1,204,164
Deferred income tax liability recognized directly in other comprehensive income:			
Retirement benefits liability	(44,042)	(283,998)	(328,040)
Deferred income tax assets - net	P1,081,766	(P205,642)	P876,124

## 19. Financial Risk and Capital Management

### Objectives and Policies

The BOD has overall responsibility for the establishment and oversight of the Company's risk management framework. The BOD has delegated to the management the responsibility of developing and monitoring the Company's risk management policies.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The BOD oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

The Company has exposure to the following risks from its use of financial instruments:

- Credit Risk
- Liquidity Risk
- Market Risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risks, and the Company's management of capital.

#### Risk Management Framework

The Company's overall risk management program seeks to minimize potential adverse effects on the financial performance of the Company. The policies for managing specific risks are summarized below:

#### Credit Risk

Credit risk represents the risk of loss the Company would incur if credit customers and counterparties fail to perform their contractual obligations. The Company's credit risk arises from the Company's use of its financial assets. Credit risk management involves entering into financial transactions only with counterparties with acceptable credit rating.

The carrying amount of financial assets represents the maximum credit exposure is as follows:

	<i>Note</i>	<b>2019</b>	<b>2018</b>
Cash in banks	5	<b>P44,113,185</b>	P51,989,421
Trade and other receivables - net	6	<b>379,028,186</b>	254,266,729
Refundable deposits	10	<b>883,080</b>	873,936
		<b>P424,024,451</b>	P307,130,086

As at December 31, 2019 and 2018, the aging per class of financial assets is as follows:

	December 31, 2019				
	Neither Past Due nor Impaired	Past Due		Past Due and Impaired	Total
		1 to 30 Days	31 to 120 Days		
Cash in banks	P44,113,185	P -	P -	P -	P44,113,185
Trade and other receivables	193,059,201	85,815,657	100,153,328	1,503,922	380,532,108
Refundable deposits	883,080	-	-	-	883,080
	<b>P238,055,466</b>	<b>P85,815,657</b>	<b>P100,153,328</b>	<b>P1,503,922</b>	<b>P425,528,373</b>

	December 31, 2018				
	Neither Past Due nor Impaired	Past Due		Past Due and Impaired	Total
		1 to 30 Days	31 to 120 Days		
Cash in banks	P51,989,421	P -	P -	P -	P51,989,421
Trade and other receivables	189,569,830	54,738,482	9,958,417	1,503,922	255,770,651
Refundable deposits	873,936	-	-	-	873,936
	<b>P242,433,187</b>	<b>P54,738,482</b>	<b>P9,958,417</b>	<b>P1,503,922</b>	<b>P308,634,008</b>

Based on the historical default rates, the Company believes that no impairment allowance is necessary in respect of trade receivables past due but not impaired because such accounts relate to customers that have good payment records with the Company. On the other hand, the Company believes that no impairment loss is necessary in respect of other receivables since they are neither past due nor impaired.

As at December 31, 2019 and 2018, the Company does not expect any counterparty, other than trade customers, to fail to meet its obligations, thus, related risk is deemed to be insignificant.

*Credit Risk Concentration*

The Company's exposure to credit risk arises from default of counterparty. Generally, the maximum credit risk exposure of receivables is its carrying amount without considering collaterals or credit enhancements, if any. The Company has no significant concentration of credit risk since the Company deals with a large number of customers. The Company does not execute any credit guarantee in favor of any counterparty.

*Credit Quality*

In monitoring and controlling credit extended to counterparty, the Company adopts a comprehensive credit rating system based on financial and nonfinancial assessments of its customers. Financial factors being considered comprised of the financial standing of the customer while the nonfinancial aspects include but are not limited to the assessment of the customer's nature of business, management profile, industry background, payment habit and both present and potential business dealings with the Company.

As at December 31, 2019 and 2018, the cash in banks, trade receivables and refundable deposits which are neither past due nor impaired are categorized under high grade quality.

The credit quality of financial assets was determined as follows:

- a. Cash in banks - the credit risk of this financial instrument is considered negligible since the counterparties are reputable entities with high quality external credit ratings based on the nature of the counterparty and the Company's internal rating system.
- b. Trade and other receivables - the credit quality is assessed as high grade since these have a high probability of collection and there is no history of default.
- c. Refundable deposits - the credit quality is assessed to be as high grade since these security deposits are refundable at the end of the lease term which is expected from a reputable service provider.

*Expected Credit Loss Assessment as at December 31, 2019*

The Company allocates each exposure to a credit risk on data that are determined to be predictive of the risk of loss (including but not limited to external ratings, audited financial assets, management accounts and cash flow projections and available press information about customers) and applying expected credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default.

Exposures within each credit risk grade are assessed based on delinquency and actual credit loss experience. The Company considered both historical loss rate and forward-looking assumptions. The Company assessed that the impact of forward-looking assumption is immaterial.

### Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk by maintaining a balance between continuity of funding and flexibility in operation. Treasury controls and procedures are in place to ensure that sufficient cash is maintained to cover daily operational and working capital requirements, as well as capital expenditures and debt service payments. Management closely monitors the Company's future and contingent obligations and sets up required cash reserves as necessary in accordance with internal requirements.

The following are contractual maturities of financial liabilities:

	As at December 31, 2019			
	Carrying Amount	Contractual Cash Flows	1 Year or Less	More than 1 Year
<b>Financial Liabilities</b>				
Trade and other payables*	P32,526,796	P32,526,796	P32,526,796	P -
Loans payable**	296,753,647	297,897,675	297,897,675	-
Lease liabilities	2,913,534	2,982,781	2,982,781	-
	P332,193,977	P333,407,252	P333,407,252	P -

\*Excluding statutory obligations and accrued interest payable amounting to P511,203 and P753,647, respectively (see Notes 11 and 12).

\*\*Including accrued interest payable amounting to P753,647 and future interest payable with interest rates of 4.50% to 6.00% (see Note 12).

	As at December 31, 2018			
	Carrying Amount	Contractual Cash Flows	1 Year or Less	More than 1 Year
<b>Financial Liabilities</b>				
Trade and other payables*	P40,157,884	P40,157,884	P40,157,884	P -
Dividends payable	75,000,000	75,000,000	75,000,000	-
Lease liabilities	6,009,939	6,294,953	3,312,172	2,982,781
	P121,167,823	P121,452,837	P118,470,056	P2,982,781

\*Excluding statutory obligations and Output VAT amounting to P11,406,689 (see Note 11).

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

### Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and other market prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. The Company is subject to various risks, including foreign currency risk and interest rate risk.

### 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 the market interest rates.

The Company's exposure to the risks for changes in market interest rates relates mainly to the Company's loans payable and advances from Parent Company. The Company manages this risk by transacting its loans either with short-term maturities or with fixed interest rates. Accordingly, management believes that the Company does not have significant interest rate risk.

#### Foreign Currency Exchange Risk

Foreign currency exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's exposure to foreign currency risk relates primarily to the Company's foreign currency-denominated monetary assets and monetary liabilities. The currencies in which these transactions are primarily denominated are in United States dollar (USD), Singaporean dollar (SGD), British pound (GBP) and Euro (EUR).

The following table shows the Company's foreign currency-denominated monetary assets and monetary liabilities and their Philippine peso (PHP) equivalents as at December 31:

	December 31, 2019			
	USD	SGD	EUR	PHP Equivalent
<b>Foreign Currency - Denominated Monetary Asset</b>				
Cash in banks	151,494	-	-	7,687,414
<b>Foreign Currency - Denominated Monetary Liability</b>				
Trade payables	606	34	2,935	135,891
<b>Net Foreign Currency - Denominated Monetary Asset (Liability)</b>	<b>150,888</b>	<b>(34)</b>	<b>(2,935)</b>	<b>7,551,523</b>

	December 31, 2018			
	USD	SGD	EUR	PHP Equivalent
<b>Foreign Currency - Denominated Monetary Asset</b>				
Cash in banks	152,275	-	-	8,028,557
<b>Foreign Currency - Denominated Monetary Liability</b>				
Trade payables	1,823	-	2,935	273,120
<b>Net Foreign Currency - Denominated Monetary Assets (Liabilities)</b>	<b>150,452</b>	<b>-</b>	<b>(2,935)</b>	<b>7,755,437</b>

In translating the foreign currency-denominated monetary assets and monetary liabilities into Philippine peso amounts, the significant exchange rates applied are as follows:

	2019	2018
USD	50.76	52.58
SGD	37.50	38.47
EUR	56.36	60.31

The following table demonstrates sensitivity of cash flows due to changes in foreign exchange rates with all variables held constant.

	December 31, 2019	
	Percentage Decrease in Foreign Exchange Rates	Increase (decrease) in Income before Income Tax
USD	(3%)	(P267,519)
SGD	(3%)	32
EUR	(7%)	10,834



	December 31, 2018	
	Percentage Increase in Foreign Exchange Rates	Increase (decrease) in Income before Income Tax
USD	5%	P395,538
SGD	3%	-
EUR	1%	(1,770)

Changes in foreign exchange rates are based on the average of the banks' forecasted closing exchange rates during the first quarter of the following calendar year. A movement in the opposite direction would increase/decrease income before income tax by the same amount, on the basis that all other variables remains constant.

#### Capital Risk Management

The Company's objectives, when managing capital, are to increase the value of stockholders' investment and maintain high growth by applying free cash flows to selective investments that would further the Company's worth. The Company sets strategies with the objective of establishing a versatile and resourceful financial management and capital structure.

The Company defines capital as paid-in capital stock, retained earnings and accumulated remeasurements on retirement benefits.

There were no changes in the Company's approach to capital management during the year.

The Chief Financial Officer has the overall responsibility for monitoring of capital in proportion to risk. Profiles for capital ratios are set in the light of changes in the Company's external environment and the risks underlying the Company's business operations and industry.

The Company is not subject to externally-imposed capital requirements.

## **20. Fair Values of Financial Instruments**

#### *Cash, Trade and Other Receivables, Trade and Other Payables and Dividends Payable*

The carrying amounts of the Company's cash, trade and other receivables, trade and other payables (excluding statutory obligations and Output VAT) and dividends payable approximate their fair values due to the short-term maturities of these financial instruments.

#### *Refundable Deposits*

In the case of security deposits, the difference between the carrying amounts and fair values is considered immaterial by management.

#### *Loans Payable and Advances from Parent Company*

The estimated fair value of loans and advances from Parent Company is based on the present value of expected future cash flows using the applicable market rates for similar types of loans at reporting date. The difference between the carrying amount and fair value of loans payable and advances from Parent Company is considered immaterial by management.

### Lease Liabilities

The fair value of lease liabilities was estimated as the present value of all future cash flows discounted using the incremental borrowing rate.

## 21. Reconciliation Between the Opening and Closing Balances for Liabilities Arising from Financing Activities

The reconciliation of movements of liabilities to cash flows arising from financing activities in 2019 are as follow:

	December 31, 2019			
	Loans Payable	Accrued Interest	Dividends Payable	Total
Balances at beginning of year	P -	P -	P75,000,000	P75,000,000
Proceeds from loans payable	394,000,000	-	-	394,000,000
Payment of principal	(98,000,000)	-	-	(98,000,000)
Interest expense	-	14,569,549	-	14,569,549
Interest paid	-	(13,815,902)	-	(13,815,902)
Payment of dividends	-	-	(75,000,000)	(75,000,000)
Balances at end of year	P296,000,000	P753,647	P -	P296,753,647

	December 31, 2018				
	Loans Payable	Accrued Interest	Advances from Parent Company	Dividends Payable	Total
Balances at beginning of year	P100,000,000	P76,507	P20,000,000	P50,000,000	P170,076,507
Proceeds from loans payable	-	-	-	-	-
Payment of principal	(100,000,000)	-	(20,000,000)	-	(120,000,000)
Interest expense	-	809,191	-	-	809,191
Interest paid	-	(885,698)	-	-	(885,698)
Dividends declared	-	-	-	25,000,000	25,000,000
Balances at end of year	P -	P -	P -	P75,000,000	P75,000,000

## 22. Prior Period Restatements

The Company restated its statements of financial position as at December 31, 2018 and January 1, 2018 and profit or loss for the year ended December 31, 2018 in accordance with PAS 8 as effect of the adoption of the PFRS 16 (see Note 16). These restatements have material impact on the statements of financial position and profit or loss as at the beginning of the earliest period presented. The following tables summarizes the impacts on the Company's financial statements.

December 31, 2018	As Previously Reported	Adjustments	As Restated
<b>Statement of Financial Position</b>			
ROU asset - net	P -	P5,336,946	P5,336,946
Deferred income tax assets - net	782,605	93,519	876,124
Lease liabilities - current	-	3,096,405	3,096,405
Lease liabilities - net of current portion	-	2,913,534	2,913,534
Accrued rent expense	361,264	(361,264)	-
Retained earnings	331,773,614	(218,210)	331,555,404
<b>Statement of Comprehensive Income</b>			
Depreciation and amortization	P1,150,566	P2,877,988	P4,028,554
Rent expense	3,197,308	(3,197,308)	-
Interest expense	809,191	354,437	1,163,628
Provision for income tax	25,903,033	(10,535)	25,892,498
Net income	57,282,485	(24,582)	57,257,903
<b>Statement of Cash Flows</b>			
Net cash from operating activities	P98,459,530	3,197,307	P101,656,837
Net cash used financing activities	(120,885,698)	(3,197,307)	(124,083,005)



January 1, 2018	As Previously Reported	Adjustments	As Restated
<b>Statement of Financial Position</b>			
ROU Asset - net	P -	P8,214,934	P8,214,934
Deferred income tax assets - net	998,783	82,983	1,081,766
Lease liabilities - current	-	2,842,870	2,842,870
Lease liabilities - net of current portion	-	6,009,939	6,009,939
Accrued rent expense	361,264	(361,264)	-
Retained earnings	299,491,129	(193,628)	299,297,501

### 23. Subsequent Events

On March 8, 2020, under Proclamation 922, the President of the Philippines (the "President") has declared a state of public health emergency due to the spread of the Corona Virus Disease 2019 (COVID-19) in the country. Subsequently on March 16, 2020, under Proclamation 929, the previously declared state of public health emergency was upgraded into a state of calamity. To manage the spread of the COVID-19, the entire Luzon has been placed under an Enhanced Community Quarantine (ECQ), effective from March 17, 2020 until April 12, 2020, which was further extended to May 15, 2020. During the ECQ, a strict home quarantine was implemented in all households, all public transportation were suspended, provision for food and essential health services was regulated and the presence of uniformed military personnel to enforce quarantine procedures is heightened. Liquor bans have also been implemented in several areas under ECQ wherein drinking alcoholic beverages in public areas is prohibited and retail stores are only allowed to sell the same during a limited time in the day. On May 16, 2020 onwards, the Philippine government placed different areas of the country either Modified Enhanced Community Quarantine (MECQ) or General Community Quarantine (GCQ), depending on the assessed risk. Several local government units lifted the liquor bans under MECQ and GCQ, subject to certain restrictions. Since the Company's primary operation is the importation and distribution of wines and spirits, the Company was only able to operate limitedly amidst the quarantine period. Moreover, the Company continues to have a skeletal workforce to oversee and make sure facilities, vital equipment, sanitation and security are adequately and properly maintained.

The Company has assessed that the ECQ being implemented by the government will have a potential unfavorable impact on the Company's revenues including the collection of its receivables, among others. However, the quantitative impact of this event on the Company's financial performance for the succeeding quarters is not yet determinable at this date. Nonetheless, the expected decline in operations does not pose a material uncertainty on the Company's ability to continue as a going concern.

**24. Supplementary Information Required by the Bureau of Internal Revenue (BIR)  
Based on Revenue Regulations No.15-2010**

In addition to the disclosures mandated under PFRS, and such other standards and/or conventions as may be adopted, companies are required by the BIR to provide in the notes to financial statements, certain supplementary information for the taxable year. The amounts relating to such supplementary information may not necessarily be the same with those amounts disclosed in the financial statements which were prepared in accordance with PFRS. The following are the tax supplementary information required for the taxable year ended December 31, 2019:

**a. VAT**

Output VAT	<b>P111,938,568</b>
Basis of the Output VAT:	
Vatable sales	<b>P932,821,399</b>
Zero-rated sales	<b>25,800,319</b>
Exempt sales	<b>207,038</b>
Total sales	<b>P958,828,756</b>
Input VAT	
Beginning of the year	<b>P -</b>
Current year transactions:	
a. Domestic purchases of goods other than capital goods	<b>5,861,987</b>
b. Importations other than capital goods	<b>105,023,854</b>
c. Others	<b>7,405,050</b>
Deductions from input tax and other adjustments	<b>(84,898)</b>
Total allowable input VAT	<b>P118,205,993</b>
Total Vat payable (refundable) during the year	<b>(P6,267,425)</b>
Less: VAT payments during the year	<b>(875,997)</b>
Net VAT payable (refundable) at the end of the year	<b>(P7,143,422)</b>

**b. Customs Duties**

Landed cost of imports	<b>P875,198,783</b>
Customs duties paid or accrued	<b>63,641,787</b>
	<b>P938,840,570</b>

**c. Excise Taxes**

Imported excisable items	
a. Spirits	<b>P188,811,842</b>
b. Wines	<b>13,351,278</b>
	<b>P202,163,120</b>

**d. Documentary Stamp Tax**

On loan instruments	<b>P2,163,411</b>
On others	<b>303,920</b>
	<b>P2,467,331</b>

e. Withholding Taxes

Tax on compensation and benefits	P533,414
Expanded withholding taxes	2,248,649
	<b>P2,782,063</b>

f. All Other Taxes (Local and National)

<i>Other taxes paid during the year included under "Taxes and licenses" account under Operating Expenses</i>	
License and permit fees	P3,843,295
Others	88,235
	<b>P3,931,530</b>

g. Tax Cases

On July 25, 2019, the Company received a Letter of Authority from the BIR to examine the Company's books of accounts and other accounting records for the period January 1, 2018 to December 31, 2018.

On September 16, 2019, the Company received Notice of Discrepancy for excise tax deficiency and its' related VAT for taxable years 2018 and 2017.

In October 2019, the Company paid the total deficiency taxes, including penalties and interest, in relation to these assessments amounting to P6,278,733.

As at December 31, 2019, the Company has no pending nor outstanding tax cases.

Information on tariff fee paid or accrued are not applicable since the Company did not enter into transaction which will result to payment or accrual of such taxes.

# COVER SHEET

for

## AUDITED FINANCIAL STATEMENTS

SEC Registration Number

C	S	2	0	1	0	0	2	2	8	6
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**COMPANY NAME**

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I	N	C	.		(	A		W	h	o	l	i	y	-	o	w	n	e	d											
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C	a	p	i	t	a	l	,		I	n	c	.	)																	

**PRINCIPAL OFFICE ( No. / Street / Barangay / City / Town / Province)**

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D	a	s	m	a	r	i	ñ	a	s		S	t	.																	
B	i	n	o	n	d	o		M	a	n	i	l	a																	

Form Type

A	A	F	S
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Department requiring the report

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Secondary License Type, If Applicable

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**COMPANY INFORMATION**

Company's email Address

www.coscocapital.com
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Company's Telephone Number/s

(02) 242-0635
---------------

Mobile Number

--

No. of Stockholders

7
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Annual Meeting (Month / Day)

June 20
---------

Fiscal Year (Month / Day)

December 31
-------------

**CONTACT PERSON INFORMATION**

The designated contact person **MUST** be an Officer of the Corporation

Name of Contact Person

Camille Clarisse P. Co.
-------------------------

Email Address

--

Telephone Number/s

(02) 242-0635
---------------

Mobile Number

--

**CONTACT PERSON'S ADDRESS**

704 Federal Tower, Dasmarinas Street, Binondo Manila
--

*Note 1: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.*

*2: All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.*



## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **MERITUS PRIME DISTRIBUTIONS, INC.** (the "Company") is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2018 and 2017, in accordance with the prescribed financial reporting framework indicated therein, 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.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the financial statements and submits the same to the stockholders.

R.G. Manabat & Co., the independent auditor appointed by the stockholders, has audited the financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

  
**CAMILLE CLARISSE P. CO**  
President & Chairman of the Board

  
**CATHERINE W. CAI**  
Treasurer

Signed this 11<sup>th</sup> day of April 2019



R.G. Manabat & Co.  
The KPMG Center, 9/F  
6787 Ayala Avenue, Makati City  
Philippines 1226  
Telephone +63 (2) 885 7000  
Fax +63 (2) 894 1985  
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Email ph-inquiry@kpmg.com.ph

## REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders  
**Meritus Prime Distributions, Inc.**  
704 Federal Tower, Dasmariñas St.  
Binondo, Manila

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of Meritus Prime Distributions, Inc. (the "Company"), a wholly-owned subsidiary of Cosco Capital, Inc., which comprise the statements of financial position as at December 31, 2018 and 2017, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended 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 *Auditors' 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 the 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.



### *Responsibilities of Management and the Board of Directors for the Financial Statements*

Management is responsible for the preparation and fair presentation of the 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 its operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

### *Auditors' Responsibilities for the Audit of the 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 auditors' 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, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSA, we exercise professional judgment and maintain professional skepticism throughout the audits. 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 auditors' 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 auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.




- 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 the Board of Directors and management 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.

**Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010 of the Bureau of Internal Revenue**

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 22 to financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

**R.G. MANABAT & CO.**

  
GREGORIO I. SAMBRANO, JR.

Partner

CPA License No. 088825

SEC Accreditation No. 1548-AR-1, Group A, valid until December 17, 2021

Tax Identification No. 152-885-329

BIR Accreditation No. 08-001987-36-2018

Issued September 20, 2018; valid until September 19, 2021

PTR No. MKT 7333635

Issued January 3, 2019 at Makati City

April 29, 2019

Makati City, Metro Manila



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**REPORT OF INDEPENDENT AUDITORS  
TO ACCOMPANY FINANCIAL STATEMENTS FOR FILING  
WITH THE SECURITIES AND EXCHANGE COMMISSION**

The Board of Directors and Stockholders  
**Meritus Prime Distributions, Inc.**  
704 Federal Tower, Dasmariñas St.  
Binondo, Manila

We have audited the accompanying financial statements of Meritus Prime Distributions, Inc. (the "Company"), a wholly-owned subsidiary of Cosco Capital, Inc., as at and for the year ended December 31, 2018, on which we have rendered our report dated April 29, 2019.

In compliance with Securities Regulation Code Rule 68, As Amended, we are stating that the said Company has one (1) stockholder owning one hundred (100) or more shares.

**R.G. MANABAT & CO.**

*Gregorio I. Sambrano, Jr.*  
GREGORIO I. SAMBRANO, JR.  
Partner

CPA License No. 088825  
SEC Accreditation No. 1548-AR-1, Group A, valid until December 17, 2021  
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**REPORT OF INDEPENDENT AUDITORS  
TO ACCOMPANY SUPPLEMENTARY INFORMATION FOR FILING  
WITH THE SECURITIES AND EXCHANGE COMMISSION**

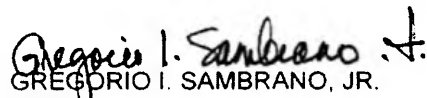
The Board of Directors and Stockholders  
**Meritus Prime Distributions, Inc.**  
704 Federal Tower, Dasmarinas St.  
Binondo, Manila

We have audited, in accordance with Philippine Standards on Auditing, the financial statements of Meritus Prime Distributions, Inc. (the "Company"), a wholly-owned subsidiary of Cosco Capital, Inc., as at and for the year ended December 31, 2018, on which we have rendered our report dated April 29, 2019.

Our audit was made for the purpose of forming an opinion on the basic financial statements of the Company taken as a whole. The supplementary information in the accompanying Schedule of Philippine Financial Reporting Standards and Interpretations is the responsibility of the Company's management.

This supplementary information is presented for purposes of complying with the Securities Regulation Code Rule 68, As Amended, and is not a required part of the basic financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

**R.G. MANABAT & CO.**

  
GREGORIO I. SAMBRANO, JR.

Partner

CPA License No. 088825

SEC Accreditation No. 1548-AR-1, Group A, valid until December 17, 2021

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PTR No. MKT 7333635

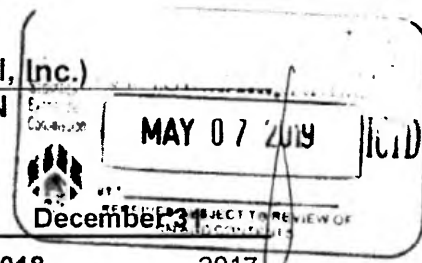
Issued January 3, 2019 at Makati City

April 29, 2019  
Makati City, Metro Manila

**MERITUS PRIME DISTRIBUTIONS, INC.**  
(A Wholly-owned Subsidiary of Cosco Capital, Inc.)

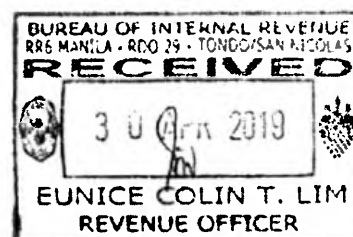
**FINANCIAL STATEMENTS**  
December 31, 2018 and 2017

**MERITUS PRIME DISTRIBUTIONS, INC.**  
**(A Wholly-owned Subsidiary of Cosco Capital, Inc.)**  
**STATEMENTS OF FINANCIAL POSITION**



	Note	2018	2017
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	5	P52,180,421	P74,641,298
Trade and other receivables - net	6, 19	254,266,729	336,739,024
Inventories	7	561,595,644	624,566,976
Prepaid expenses and other current assets	8	350,652,488	242,202,868
<b>Total Current Assets</b>		<b>1,218,695,282</b>	<b>1,278,150,166</b>
<b>Noncurrent Assets</b>			
Property and equipment - net	9	1,896,032	3,021,269
Deferred income tax assets - net	18	782,605	998,783
Refundable deposits	10, 19	873,936	842,310
<b>Total Noncurrent Assets</b>		<b>3,552,573</b>	<b>4,862,362</b>
		<b>P1,222,247,855</b>	<b>P1,283,012,528</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Trade and other payables	11	P51,564,573	P54,514,583
Dividends payable	14, 19	75,000,000	50,000,000
Income tax payable		12,018,068	7,051,346
Loans payable	12, 19	-	100,000,000
Advances from Parent Company	13, 19	-	20,000,000
<b>Total Current Liabilities</b>		<b>138,582,641</b>	<b>231,565,929</b>
<b>Noncurrent Liabilities</b>			
Retirement benefits liability	17	764,908	1,491,441
Accrued rent expense		361,264	361,264
<b>Total Noncurrent Liabilities</b>		<b>1,126,172</b>	<b>1,852,705</b>
<b>Total Liabilities</b>		<b>139,708,813</b>	<b>233,418,634</b>
<b>Equity</b>			
Capital stock	14	750,000,000	750,000,000
Retained earnings		331,773,614	299,491,129
Accumulated remeasurements on retirement benefits		765,428	102,765
<b>Total Equity</b>		<b>1,082,539,042</b>	<b>1,049,593,894</b>
		<b>P1,222,247,855</b>	<b>P1,283,012,528</b>

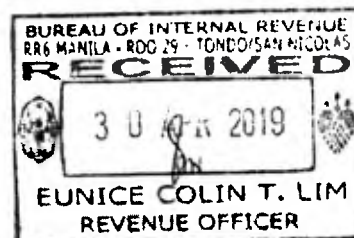
See Notes to Financial Statements.



**MERITUS PRIME DISTRIBUTIONS, INC.**  
**(A Wholly-owned Subsidiary of Cosco Capital, Inc.)**  
**STATEMENTS OF COMPREHENSIVE INCOME**

		Years Ended December 31	
	Note	2018	2017
<b>NET SALES</b>	13	<b>P923,272,269</b>	<b>P842,384,728</b>
<b>COST OF GOODS SOLD</b>	15	<b>722,487,888</b>	<b>623,615,304</b>
<b>GROSS PROFIT</b>		<b>200,784,381</b>	<b>218,769,424</b>
<b>OPERATING EXPENSES</b>			
Advertising		53,151,355	95,305,310
Outside services		22,885,866	7,075,584
Salaries and other employee benefits	17	12,672,637	12,239,810
Freight out		6,121,895	14,656,127
Deficiency taxes		4,693,252	4,001,456
Taxes and licenses		3,963,372	6,872,986
Rent	16	3,197,307	5,532,900
Insurance		2,925,172	2,901,488
Transportation and travel		2,791,031	2,745,949
Depreciation and amortization	9	1,150,566	1,410,780
Representation and entertainment		1,010,694	1,078,121
Miscellaneous		2,046,512	2,108,402
		<b>116,609,659</b>	<b>155,928,913</b>
<b>INCOME FROM OPERATIONS</b>		<b>84,174,722</b>	<b>62,840,511</b>
<b>OTHER CHARGES - Net</b>			
Interest income	5	1,763,211	821,986
Foreign exchange losses - net		(1,499,373)	(3,725,334)
Interest expense	12, 13	(809,191)	(706,174)
Commission expense		(285,121)	(1,026,073)
Bank charges		(158,730)	(102,936)
		<b>(989,204)</b>	<b>(4,738,531)</b>
<b>INCOME BEFORE INCOME TAX</b>		<b>83,185,518</b>	<b>58,101,980</b>
<b>PROVISION FOR INCOME TAX</b>	18	<b>25,903,033</b>	<b>18,348,211</b>
<b>NET INCOME</b>		<b>57,282,485</b>	<b>39,753,769</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
<b>Item that will never be reclassified to profit or loss in subsequent periods</b>			
Remeasurement gain on retirement benefits	17	946,662	-
Income tax effect		(283,999)	-
		<b>662,663</b>	<b>-</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>P57,945,148</b>	<b>P39,753,769</b>

See Notes to Financial Statements.



**MERITUS PRIME DISTRIBUTIONS, INC.**  
**(A Wholly-owned Subsidiary of Cosco Capital, Inc.)**  
**STATEMENTS OF CHANGES IN EQUITY**

	Years Ended December 31				
	Capital Stock (Note 14)	Stock Dividends Distributable (Note 14)	Retained Earnings (Note 14)	Accumulated Remeasurements on Retirement Benefits (Note 17)	Total
Balances as at December 31, 2016	P350,000,000	P400,000,000	P309,737,360	P102,765	P1,059,840,125
Net income for the year	-	-	39,753,769	-	39,753,769
Cash dividends declared	-	-	(50,000,000)	-	(50,000,000)
Stock issuances	400,000,000	(400,000,000)	-	-	-
Balances as at December 31, 2017	750,000,000	-	299,491,129	102,765	1,049,593,894
Net income for the year	-	-	57,282,485	-	57,282,485
Other comprehensive income for the year	-	-	-	662,663	662,663
Cash dividends declared	-	-	(25,000,000)	-	(25,000,000)
<b>Balances as at December 31, 2018</b>	<b>P750,000,000</b>	<b>P -</b>	<b>P331,773,614</b>	<b>P765,428</b>	<b>P1,082,539,042</b>

*See Notes to Financial Statements.*



**MERITUS PRIME DISTRIBUTIONS, INC.**  
**(A Wholly-owned Subsidiary of Cosco Capital, Inc.)**  
**STATEMENTS OF CASH FLOWS**

		Years Ended December 31	
	Note	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax		P83,185,518	P58,101,980
Adjustments for:			
Interest income	5	(1,763,211)	(821,986)
Depreciation and amortization	9	1,150,566	1,410,780
Interest expense	12, 13	809,191	706,174
Retirement benefits costs	17	220,129	333,020
Unrealized foreign exchange gains		(21,409)	(27,349)
Rent expense in excess of billings		-	361,264
Operating income before working capital changes		83,580,784	60,063,883
Decrease (increase) in:			
Trade and other receivables		82,472,295	(45,607,194)
Inventories		62,971,332	138,475,884
Prepaid expenses and other current assets		(108,449,620)	(198,217,848)
Decrease in trade and other payables		(2,874,340)	(7,355,973)
Cash generated from (used in) operations		117,700,451	(52,641,248)
Income taxes paid		(21,004,132)	(32,799,304)
Interest received	5	1,763,211	821,986
Net cash from (used in) operating activities		98,459,530	(84,618,566)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Decrease (increase) in refundable deposits	10	(31,626)	588,577
Additions to property and equipment	9	(25,329)	(1,293,598)
Net cash used in investing activities		(56,955)	(705,021)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
<b>ACTIVITIES</b>			
Payments of:			
Loans payable		(100,000,000)	-
Advances from Parent Company	13	(20,000,000)	(30,000,000)
Interest paid		(885,698)	(629,667)
Proceeds from loans payable		-	100,000,000
Net cash from (used in) financing activities		(120,885,698)	69,370,333
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>			
		22,246	(12,028)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(22,460,877)</b>	<b>(15,965,282)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<b>74,641,298</b>	<b>90,606,580</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>5</b>	<b>P52,180,421</b>	<b>P74,641,298</b>

See Notes to Financial Statements.

**MERITUS PRIME DISTRIBUTIONS, INC.**  
**(A Wholly-owned Subsidiary of Cosco Capital, Inc.)**

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**NOTES TO FINANCIAL STATEMENTS**

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**1. Reporting Entity**

Meritus Prime Distributions, Inc. (the "Company") was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on February 17, 2010 to engage primarily in buying, selling, importing, exporting, manufacturing, repackaging, preparing, bottling, and distribution on wholesale of all kinds of wines, spirits, liquors, beers, and other alcoholic and non-alcoholic beverages and drinks.

The Company is a wholly-owned subsidiary of Cosco Capital, Inc. ("Cosco" or "Parent Company"), a company incorporated in the Philippines. Cosco is the ultimate Parent Company and its shares of stock are listed for trading at Philippine Stock Exchange (PSE).

The Company's registered office address is at Unit 704 Federal Tower, Dasmariñas St., Binondo, Manila.

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**2. Basis of Preparation**

Statement of Compliance

The financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). PFRS which are issued by the Philippine Financial Reporting Standards Council (FRSC), consist of PFRS, Philippine Accounting Standards (PAS), and Philippine Interpretations based on the International Financial Reporting Interpretations Committee (IFRIC) interpretations.

Basis of Measurement

The financial statements have been prepared on the historical cost basis of accounting except for the retirement benefits liability which is measured at the present value of the defined benefits obligation.

Functional and Presentation Currency

The financial statements are measured using the currency of the primary economic environment in which the Company operates. The financial statements are presented in Philippine peso, which is also the Company's functional currency. All amounts are rounded to the nearest peso, except when otherwise indicated.

Authorization for Issuance of the Financial Statements

The accompanying financial statements of the Company as at and for the years ended December 31, 2018 and 2017 were approved and authorized for issue by the Company's Board of Directors (BOD) on April 11, 2019.

### 3. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in these financial statements, except for the changes in accounting policies as explained below.

#### Adoption of New or Revised Standards and Interpretations

The Company has adopted the following new or revised standards and interpretations starting January 1, 2018 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption of these standards did not have any significant impact on the Company's financial statements. These standards are as follows:

- PFRS 9, *Financial Instruments (2014)* replaces PAS 39, *Financial Instruments: Recognition and Measurement* and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurements requirements (in 2009 and 2010) and a new hedge accounting model (in 2013).

PFRS 9 includes revised guidance on the classification and measurement of financial assets that reflects the business model in which assets are managed and their cash flow characteristics, including a new forward-looking expected credit loss model for calculating impairment, and guidance on own credit risk on financial liabilities measured at fair value. PFRS 9 incorporates new hedge accounting requirements that represent a major overhaul of hedge accounting and introduces significant improvements by aligning the accounting more closely with risk management.

#### *Classification and Measurement of Financial Assets and Financial Liabilities*

PFRS 9 contains three principal classification categories for financial assets: (1) measured at amortized cost; (2) measured at fair value through other comprehensive income (FVOCI); and (3) measured at fair value through profit or loss (FVTPL). The classification of financial assets under PFRS 9 is generally based on the business model in which the financial asset is managed and its contractual cash flow characteristics. PFRS 9 eliminates the previous PAS 39 categories of held to maturity, loans and receivables and available for sale.

The following table shows the original measurement categories under PAS 39 and the new measurement categories under PFRS 9 for each class of the Company's financial assets as at January 1, 2018.

<b>Financial Assets</b>	<b>Original Classification under PAS 39</b>	<b>New Classification under PFRS 9</b>	<b>Original Carrying Amount under PAS 39</b>	<b>New Carrying Amount under PFRS 9</b>
Cash in banks and cash equivalents	Loans and receivables	Financial assets at amortized cost	P74,440,298	P74,440,298
Trade and other receivables - net	Loans and receivables	Financial assets at amortized cost	336,739,024	336,739,024
Refundable deposits	Loans and receivables	Financial assets at amortized cost	842,310	842,310
<b>Total Financial Assets</b>			<b>P412,021,632</b>	<b>P412,021,632</b>

Financial assets that were previously classified as loans and receivables were all classified at amortized cost as the Company intends to hold these assets to maturity to collect contractual cash flows which consist solely of payments of principal and interest on the principal amount outstanding.

PFRS 9 largely retains the existing requirements in PAS 39 for the classification and measurement of financial liabilities. The adoption of PFRS 9 has not had a significant effect on the Company's accounting policies related to financial liabilities.

There were no financial assets or financial liabilities which the Company has previously designated as at FVTPL under PAS 39 that were subject to reclassification or which the Company has elected to reclassify upon the application of PFRS 9. There were no financial assets or financial liabilities which the Company has elected to designate as at FVTPL at the date of initial application of PFRS 9.

#### *Impairment of Financial Assets*

PFRS 9 replaces the "incurred loss" model in PAS 39 with an "expected credit loss" (ECL) model in relation to the impairment of financial assets. The new impairment model applies to financial assets measured at amortized cost. Under PFRS 9, credit losses are recognized earlier than under PAS 39. For assets in the scope of PFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Company has assessed that the impact of providing ECL is immaterial. Thus, the Company has determined that the application of PFRS 9's impairment requirements as at January 1, 2018 did not result in an additional allowance for impairment.

#### *General Hedging Accounting*

The adoption of PFRS 9 with respect to hedging accounting has not had an impact on the Company's accounting policies since the Company has no hedging transactions.

The Company has used an exemption not to restate comparative information. The classification and measurement requirements previously applied in accordance with PAS 39 and disclosure requirements in PFRS 7 are retained for the comparative period. Accordingly, the information presented for the comparative period does not reflect the requirements of PFRS 9 and the consequential amendments to PFRS 7.

- PFRS 15, *Revenue from Contracts with Customers*, replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue*, IFRIC-13, *Customer Loyalty Programmes*, IFRIC-18, *Transfer of Assets from Customers*, and SIC-31, *Revenue - Barter Transactions Involving Advertising Services*. The new standard introduces a new revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) a company transfers control of goods or services to a customer at the amount to which the company expects to be entitled.

PFRS 15 requires a contract with a customer to be legally enforceable and to meet certain criteria to be within the scope of the standard and for the general model to apply. It introduces detailed guidance on identifying performance obligations which requires entities to determine whether promised goods or services are distinct. It also introduces detailed guidance on determining transaction price, including guidance on variable consideration and consideration payable to customers. The transaction price will then be generally allocated to each performance obligation in proportion to its stand-alone selling price.

Depending on whether certain criteria are met, revenue is recognized over time in a manner that best reflects the Company's performance, or at a point in time, when control of the goods or services is transferred to the customer.

The standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other PFRS. It also does not apply if two companies in the same line of business exchange non-monetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of other PFRS, then the guidance on separation and measurement contained in other PFRS takes precedence.

Due to the transition method (cumulative effect method) chosen in applying PFRS 15, comparative information has not been restated to reflect the new requirements. Accordingly, the information presented for 2017 has not been restated - i.e. it is presented as previously reported under PAS 18 and related interpretations. Additionally, the disclosure requirements in PFRS 15 have not generally been applied to comparative information.

For the year ended December 31, 2018, the Company carried out a detailed review of the revenue recognition criteria applying the requirements of PFRS 15 to ensure that the same principles were being applied consistently. This review in particular examined the timing of revenue recognition and variable consideration such as discounts, rebates, listing and slotting fees/display allowances and certain payments to customers post the initial sale of goods.

#### *Timing of Revenue Recognition*

The Company concluded that PFRS 15 will not impact the timing of revenue recognition as revenue from sale of goods is currently recognized when the goods are delivered to the customers' warehouse, which is taken to be point in time at which control over the goods is transferred.

#### *Variable Consideration*

The revised accounting policy establishes that revenue is recognized to the extent that it is highly probable that a reversal in the amount of revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently settled. This means that discounts, allowances, listing and slotting fees/display allowances are deducted from revenue unless it is highly probable that they will not be incurred. Based on management's assessment, the application of PFRS 15 did not impact the current classification of these variable consideration, i.e. discounts, rebates, listing and slotting fees/display allowances and certain payments to customers after the initial sale of goods as reduction to revenue. Variable considerations are measured based on the most likely amount based on the agreement with customers.

The new standard did not have a material impact on the financial statements, including the Company's accounting policies with respect to its revenue streams.

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration* clarifies that the transaction date to be used for translation for foreign currency transactions involving an advance payment or receipt is the date on which the entity initially recognizes the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. The interpretation applies when an entity pays or receives consideration in a foreign currency and recognizes a non-monetary asset or liability before recognizing the related item.

The Company makes foreign currency sales and purchases. The Company's accounting policy is aligned with the interpretation.

### Financial Instruments

#### *Date of Recognition*

The Company recognizes a financial asset or a financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases and sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

#### *Initial Recognition of Financial Instruments*

Financial instruments are recognized initially at fair value. The initial measurement of financial instruments, except for those financial assets and financial liabilities FVTPL, includes transaction costs.

#### *Classification and Measurement of Financial Instruments - Policy Applicable from January 1, 2018*

On initial recognition, the Company classifies its financial assets in the following categories: measured at amortized cost, financial assets at FVTPL and financial assets at FVOCI. The classification depends on the business model for managing the financial assets and the contractual terms of its cash flows.

The Company classifies its financial liabilities as either financial liabilities at amortized cost or financial liabilities at FVTPL. The Company classifies all financial liabilities at amortized cost, except for:

- (a) financial liabilities designated by the Company at initial recognition as at FVTPL, when doing so results in more relevant information.
- (b) financial liabilities that arise when the transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.
- (c) contingent consideration recognized by the Company in a business combination which shall subsequently be measured at fair value with changes recognized in profit or loss.
- (d) financial guarantee contracts and commitments to provide a loan at a below market interest rate which are initially measured at fair value and subsequently at higher of amortized amount and amount of loss allowance.

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

#### *Business Model Assessment*

The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;



- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated - e.g., whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

#### *Solely Payments of Principal and Interest Assessment*

Principal is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers contingent events that would change the amount or timing of cash flows, terms that may adjust the contractual coupon rate, including variable-rate features, prepayment and extension features, and terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse features).

The Company has no financial assets classified as financial assets at FVTPL and FVOCI as at December 31, 2018.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

#### *Financial Assets at Amortized Cost*

A financial asset is measured at amortized cost if it is held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

Included in this category are the Company's cash in banks and cash equivalents, trade and other receivables and refundable deposits.

#### *Financial Liabilities at Amortized Cost*

This category pertains to financial liabilities that are not held for trading or designated as at FVTPL upon inception of the liability. These include liabilities arising from operations or borrowings. The financial liabilities are recognized initially at fair value and subsequently carried at amortized cost, taking into account the impact of applying the effective interest rate method of amortization for any related premium, discount and any directly attributable transaction costs. These financial liabilities are included in current liabilities if maturity is within twelve months from reporting date. Otherwise, these are classified as noncurrent liabilities.

This category includes the Company's trade and other payables (excluding statutory obligations and output Value-added Tax (VAT) and dividends payable as at December 31, 2018.



*Classification and Measurement of Financial instruments - Policy Applicable before January 1, 2018*

On initial recognition, the Company classifies its financial assets in the following categories: financial assets at FVTPL, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. Financial liabilities on the other hand, are classified into the following categories: financial liabilities at FVTPL and other financial liabilities. Management determines the classification of its financial assets and financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at each reporting date.

Financial instruments are classified as liability 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 reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

As at December 31, 2017, the Company's financial assets and financial liabilities consist of loans and receivables and other financial liabilities.

*Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivables. After initial measurement, loans and receivables are subsequently carried at cost or amortized cost using the effective interest method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process. Loans and receivables are classified as current assets if maturity is within 12 months from the balance sheet date or the normal operating cycle, whichever is longer. Otherwise, these are classified as noncurrent assets.

As at December 31, 2017, the Company's loans and receivables include cash in banks and cash equivalents, trade and other receivables and refundable deposits.

*Other Financial Liabilities*

This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. These include liabilities arising from operations or borrowings (e.g., payables, accruals). Other financial liabilities are initially recognized at fair value, plus directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the amortization process. Financial liabilities are classified as current, except for maturities greater than twelve months after the reporting date. These are classified as noncurrent liabilities.

As at December 31, 2017, the Company's other financial liabilities include trade and other payables (excluding statutory obligations and output VAT), loans payable, advances from Parent Company and dividends payable.

### Impairment of Financial Assets

#### *Policy Applicable from January 1, 2018*

PFRS 9 replaces the "incurred loss" model in PAS 39 with an "expected credit loss" ECL model. The new impairment model applies to financial assets measured at amortized cost. Under PFRS 9, credit losses are recognized earlier than under PAS 39.

The Company measures loss allowances at an amount equal to lifetime ECLs, except for debt securities that are determined to have low credit risk at the reporting date and other debt securities and bank balances for which credit risk has not increased significantly since initial recognition, which are measured at 12-month ECLs.

Loss allowances for trade and other receivables is always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due. The Company considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security (if any is held) or the financial asset is more than 90 days past due on any material credit obligation to the Company.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. The 12-month ECLs are a portion of lifetime ECLs that represents the ECLs resulting from default events on the financial instrument that are possible within 12 months after the reporting date or a shorter period if the expected life of the instrument is less than 12 months.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

ECLs are probability weighted-estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Company assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the significant financial difficulty of the borrower or issuer, a breach of contract such as default, the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise, when it is probable that the borrower will enter bankruptcy or other financial reorganization, or the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

Financial assets are written off when there is no reasonable expectation of recovery. The Company categorizes financial assets recorded at amortized cost for write off when a debtor fails to make payments or when it is probable that the receivable will not be collected. Where amortized cost financial assets have been written off, the Company continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognized in profit or loss.

*Policy Applicable before January 1, 2018*

The Company assesses at each reporting date whether a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the contracted parties or group of contracted parties is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*Loans and Receivables*

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant or collectively for financial assets that are not individually significant. If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of loss is measured as a 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 shall be reduced through the use of an allowance account, and the amount of the loss shall be recognized in profit or loss.

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 group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

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 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 amount of the asset does not exceed its amortized cost at the reversal date.

## Derecognition of Financial Assets and Financial Liabilities

### *Financial Assets*

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

- the rights to receive cash flows from the asset have expired;
- 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 rewards of the asset; or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards 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 is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

### *Financial Liabilities*

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. The difference in the respective carrying amounts is recognized in profit or loss.

## Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statements 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. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statements of financial position.

## Fair Value Measurement

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 measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to the Company.

The fair value of an asset or a liability is measured using the assumptions that the market participants would use when pricing the asset or liability, assuming that the market participants act in their economic best interest.

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 markets 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 reassessing 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.

As at December 31, 2018 and 2017, no financial asset or financial liability was recognized at fair value. The Company has no other assets or liabilities with recurring and non-recurring fair value measurements.

#### Inventories

Inventories, which consist of spirits, wines and water, are valued at the lower of cost and net realizable value (NRV). Cost is comprised of purchase price, expenditure incurred in acquiring the inventories and other costs incurred in bringing them to their present location and condition. Cost is determined using the first-in, first-out method.

NRV represents the estimated selling price less costs to be incurred in marketing, selling and distribution. In determining the NRV, the Company considers any adjustment necessary to write-down inventories to NRV for slow-moving and near expiry products based on physical inspection and management evaluation.

#### Prepaid Expenses and Other Current Assets

##### *Prepaid Expenses and Advances*

Prepaid expenses and advances represent expenses not yet incurred but already paid in cash. Prepaid expenses and advances are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are charged to profit or loss as these are consumed in operations or expire with the passage of time.

Prepaid expenses and advances are classified in the statements of financial position as current asset when the cost of goods or services related to the prepayment are expected to be incurred within one (1) year from the reporting date. Otherwise, prepayments are classified as noncurrent assets.

#### Value-Added Tax

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

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of tax included.

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of "Prepaid expenses and other current assets" account or "Trade and other payables" account in the statements of financial position.

#### Refundable Deposits

Refundable deposits are cash paid for the lease agreements covering the office spaces and warehouse which are expected to be refunded upon the termination of the lease. These are carried at net realizable value and classified as current for leases which will expire within 12 months from the reporting period otherwise, these will be classified as noncurrent.

#### Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization and any impairment in value. The initial cost of items of property and equipment consists of its purchase price, including import duties and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to profit or loss in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of the item of property and equipment.

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

	<u>Number of Years</u>
Transportation and delivery equipment	5
Leasehold improvements	3 or lease term, whichever is shorter
Furniture and fixtures	2
Office equipment	2

Depreciation and amortization of an item of property and equipment begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation or amortization ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, and the date the asset is derecognized.

The estimated useful lives and depreciation and amortization method are reviewed periodically to ensure that the periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.



Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation is recognized in the profit or loss. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and any impairment in value are removed from the accounts and any resulting gain or loss is recognized in profit or loss.

#### Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. The capitalization of borrowing costs: (i) commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred; (ii) is suspended during the extended periods in which active development, improvement and construction of the assets are interrupted; and (iii) ceases when substantially all the activities necessary to prepare the assets are completed. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds.

Other borrowing costs are recognized as expense in the period in which they are incurred.

#### Impairment of Noncurrent Nonfinancial Assets

The Company assesses at end of each reporting period whether there is indication that its noncurrent nonfinancial assets which include property and equipment may be impaired. If any such indication exists and where the carrying amount exceeds the estimated recoverable amount, the assets or the cash generating unit (CGU) are written down to their recoverable amounts. The recoverable amount of the nonfinancial assets is the greater of fair value less cost to sell and value-in-use. The fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's length transaction. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs. Impairment losses, if any, are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation and amortization charge are adjusted in future periods to allocate the asset's revised carrying amount on a systemic basis over its remaining useful life.

#### Capital Stock

Ordinary or Common shares are classified as equity. The proceeds from the issuance of ordinary or common shares are presented in equity as capital stock to the extent of the par value of the issued and outstanding shares and any excess of the proceeds over the par value of the shares issued, less any incremental costs directly attributable to the issuance, net of tax, is presented in equity as additional paid-in capital.



### Retained Earnings

Retained earnings represent the cumulative balance of periodic net income or loss, dividend contributions, correction of prior year errors, effect of changes in accounting policy and other capital adjustments.

### Dividends on Common Shares

Cash dividends on common shares are recognized as liability and deducted from equity when approved by the BOD of the Company. Stock dividend declared but not yet issued is presented as "Capital stock dividend distributable" in the statement of financial position. When the stock dividends are declared, the amount of stock dividends are treated as transfers from retained earnings to common shares.

Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date.

### Revenue Recognition

Prior to January 1, 2018, under PAS 18, *Revenue*, revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the amount of revenue can be reliably measured.

Upon adoption of PFRS 15 beginning January 1, 2018, revenue from contracts with customers is recognized upon transfer of goods to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods.

The following specific recognition criteria must also be met before revenue is recognized:

#### *Sale of Goods*

Revenue is recognized at the point in time when control of the asset is transferred to the customer, generally upon delivery. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized. Revenue is recognized net of variable consideration such as discounts, rebates, listing and slotting fees/display allowances and certain payments to customers post the initial sale of goods.

#### *Interest Income*

Interest income is recognized in profit or loss as it accrues, taking into account the effective yield on the asset.

### Cost and Expense Recognition

#### *Cost of Goods Sold*

Cost of goods sold is recognized when goods are shipped to the buyer. Expenses are recognized upon utilization of services or at the date they are incurred.

#### *Operating Expenses*

Operating expenses are costs incurred to sell or distribute the goods and administering the business. It includes documentation processing and delivery, among others. Operating expenses are expensed as incurred.

### Other Comprehensive Income

Other comprehensive income 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 year in accordance with PFRS.

## Employee Benefits

### *Short-term Employee Benefits*

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of the past service provided by the employee and the obligation can be estimated reliably.

### *Retirement Benefits Liability and Costs*

The Company has an unfunded, noncontributory defined benefits retirement plan covering substantially all permanent, regular and full-time employees. The Company's obligation in respect of the defined benefits is calculated by estimating the amount of the future benefits that employees have earned in the current and prior period and discounting that amount.

The calculation of defined benefits obligations is performed on a periodic basis by a qualified actuary using the projected unit credit method.

Remeasurements of the retirement benefits liability, which comprise of actuarial gains and losses, are recognized immediately in other comprehensive income. The Company determines the interest expense on the retirement benefits liability for the period by applying the discount rate used to measure the retirement benefits liability at the beginning of the annual period to the then retirement benefits liability, taking into account any changes in the retirement benefits liability during the period as a result of benefit payments, if any. Interest expense and other expenses related to defined benefits plans are recognized in profit or loss.

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

## Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after the inception of 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 an extension is 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 specific asset; or
- (d) there is a substantial change to the asset.

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

#### *Company as Lessee*

Leases where the lessors retain substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in profit or loss on a straight-line basis over the lease term. Associated costs such as maintenance and insurance are expensed as incurred.

#### Income Taxes

Provision for income tax is composed of current income tax and deferred income tax. Provision for income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income, in which case, it is recognized directly in equity or in other comprehensive income.

#### *Current Income Tax*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used as basis to compute the amount are those that have been enacted or substantively enacted at the reporting date.

#### *Deferred Income Tax*

Deferred income tax is provided, using the balance sheet liability method, 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 income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences can be utilized.

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

Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

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

#### Related Party Transactions and Relationships

Related party relationships exist when the party has the ability to control, directly or indirectly, through one or more intermediaries, or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting entity and its key management personnel, directors or stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely to the legal form. Related parties may be individual or corporate entities.

#### Foreign Currency Denominated Transactions and Translation

Transactions in foreign currencies are recorded using the functional currency exchange rate at the date of transaction. Outstanding monetary assets and monetary liabilities denominated in foreign currencies are translated using the closing exchange rate at the reporting date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

#### Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of the provision to be reimbursed, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss, net of reimbursement. If the effect of the time value of money is material, provisions are discounted using the current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

#### Contingencies

Contingent liabilities are not recognized in the financial statements but are disclosed in the notes to financial statements unless the outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but 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 position at the reporting date (adjusting events) are reflected in the financial statements. Events after the reporting date that are not adjusting events are disclosed in the notes to financial statements when material.

#### Standards Issued But Not Yet Adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2018. However, the Company has not applied the following relevant and applicable new or amended standards and interpretations in preparing these financial statements. Unless otherwise stated, none of these are expected to have a significant effect on the Company's financial statements.

The Company plans to adopt the following new or amended standards and interpretations on the respective effective dates, as applicable.

#### *Effective January 1, 2019*

- PFRS 16, *Leases* supersedes PAS 17, *Leases* and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements.

Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were also introduced.

Early adoption is permitted. The Company has completed an initial assessment of the potential impact on its financial statements. The actual impact of applying PFRS 16 on the financial statements in the period of initial application will depend on future economic conditions and the Company's latest assessment of whether it will exercise any lease renewal options.

So far, the most significant impact identified is that the Company will recognize new assets and liabilities for the operating lease of its office space and warehouse.

In addition, the nature of expenses related to this lease will now change as PFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use of assets and interest expense on lease liabilities.

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments* clarifies how to apply the recognition and measurement requirements in PAS 12, *Income Taxes* when there is uncertainty over income tax treatments. Under the interpretation, whether the amounts recorded in the financial statements will differ to that in the tax return, and whether the uncertainty is disclosed or reflected in the measurement, depends on whether it is probable that the tax authority will accept the Company's chosen tax treatment. If it is not probable that the tax authority will accept the Company's chosen tax treatment, the uncertainty is reflected using the measure that provides the better prediction of the resolution of the uncertainty - either the most likely amount or the expected value.

The interpretation also requires the reassessment of judgments and estimates applied if facts and circumstances change - e.g. as a result of examination or action by tax authorities, following changes in tax rules or when a tax authority's right to challenge a treatment expires.

Early adoption is permitted. The interpretation can be initially applied retrospectively applying PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* if possible without the use of hindsight, or retrospectively with the cumulative effect recognized at the date of initial application without restating comparative information.

The Company is currently assessing the potential impact of adopting this interpretation.

- PAS 19, *Employee Benefits - Plan Amendment, Curtailment or Settlement (Amendments)* clarify that on amendment, curtailment or settlement of a defined benefit plan, an entity now uses updated actuarial assumptions to determine its current service cost and net interest for the period. The effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income.

The amendments apply for plan amendments, curtailments or settlements that occur on or after the beginning of the first annual reporting period that begins on or after January 1, 2019. Earlier application is permitted.

*Effective January 1, 2020*

- *Amendments to References to Conceptual Framework in PFRS Standards* sets out amendments to PFRS Standards, their accompanying documents and PFRS practice statements to reflect the issuance of the revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework). The 2018 Conceptual Framework includes a new chapter on measurement, guidance on reporting financial performance, improved definitions of an asset and a liability, and guidance supporting these definitions, and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Some Standards, their accompanying documents and PFRS practice statements contain references to, or quotations from, the International Accounting Standards Committee (IASC)'s Framework for the Preparation and Presentation of Financial Statements adopted by the International Accounting Standards Board (IASB) in 2001 or the Conceptual Framework for Financial Reporting issued in 2010. The amendments update some of those references and quotations so that they refer to the 2018 Conceptual Framework, and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

- PAS 1, *Presentation of Financial Statements* and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Material (Amendments)* refine the definition of material. The amended definition of material states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify the definition of material and its application by:
  - (a.) raising the threshold at which information becomes material by replacing the term "could influence" with "could reasonably be expected to influence";
  - (b.) including the concept of "obscuring information" alongside the concept of "omitting" and "misstating" information in the definition;
  - (c.) clarifying that the users to which the definition refers are the primary users of general purpose financial statements referred to in the Conceptual Framework;
  - (d.) clarifying the explanatory paragraphs accompany the definition; and
  - (e.) aligning the wording of the definition of material across PFRS Standards and other publications.

The amendments are expected to help entities make better materiality judgments without substantively changing existing requirements.

The amendments apply prospectively. Earlier application is permitted.

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#### 4. Management's Use of Judgments, Accounting Estimates, and Assumptions

The preparation of the financial statements in accordance with PFRS requires management to exercise judgments, make accounting estimates and use assumptions that affect reported amounts of assets, liabilities, income and expenses and related disclosures. Future events may occur which will cause the assumptions used in arriving at the accounting estimates to change. The effects of any change in accounting estimates are reflected in the financial statements as they become reasonably determinable.

Accounting judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

##### Judgments

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

##### *Determination of the Company's Functional Currency*

The Company considers factors, including but not limited to, the currency that mainly influences sales prices of its goods and the currency in which receipts from operating activities are usually retained. Based on the economic substance of the underlying circumstances relevant to the Company, the functional currency has been determined to be the Philippine peso. It is the currency that mainly influences the Company's operations.

##### *Determination on Whether an Agreement Contains a Lease*

The Company uses its judgment in determining whether an arrangement contains a lease, based on the substance of the arrangement at the inception date, and makes assessment on whether the arrangement is dependent on the use of the specific asset or assets, the arrangement conveys a right to use the asset and the arrangement transfers substantially all the risk and rewards incidental to ownership to the Company.

Rent expense recognized in the profit or loss amounted to P3,197,307 and P5,532,900 in 2018 and 2017, respectively (see Note 16).

##### *Recognition of Revenue*

The Company uses its judgment in determining the timing of the transfer of control on the goods that it delivered. The Company determined that the control is transferred for sale of goods when the Company has transferred physical possession of the goods and obtained the right to payment for the goods which is upon the customer's acceptance of the goods at the customer's warehouse.



### Accounting Estimates and Assumptions

The key estimates and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below:

#### *Allowance for Impairment Losses on Trade and Other Receivables and Refundable Deposits*

The Company uses the expected credit loss model in estimating the level of allowance which includes forecasts of future events and conditions. A credit loss is measured as the present value of all cash shortfalls (the difference between the cash flows that the Company expects to receive). The model represents a probability-weighted estimate of the difference over the remaining life of the receivables. The maturity of the Company's receivables is less than one year so the lifetime expected credit loss and the 12-month expected credit losses are similar. In addition, management assessed that the credit risk for its trade and other receivables and refundable deposits as at the reporting date are low as discussed in Note 19, therefore the Company did not have to assess whether a significant increase in credit risk has occurred. An increase in the allowance for impairment losses would increase the recorded operating expenses and decrease current assets.

No impairment losses were recognized in 2018 and 2017 in respect of the Company's financial assets because management assessed that these are fully recoverable.

The combined carrying amounts of the Company's trade and other receivables and refundable deposits are P255,140,665 and P337,581,334 as at December 31, 2018 and 2017, respectively (see Note 19).

#### *Determination of Net Realizable Value (NRV) of Inventories*

The Company's estimates of the NRV of inventories are based on the most reliable evidence available at the time the estimates are made, of the amount that the inventories are expected to be realized. These estimates consider the inventory obsolescence, physical deterioration, fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. A new assessment is made at NRV in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is a clear evidence of an increase in NRV because of changes in economic circumstances, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised NRV.

The carrying amounts of inventories as at December 31, 2018 and 2017 are P561,595,644 and P624,566,976, respectively (see Note 7). No allowance to reduce inventory to NRV was recognized in 2018 and 2017.

#### *Estimation of Useful Lives of Property and Equipment*

The Company estimates the useful lives of property and equipment based on the period over which these 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 asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible that future financial performance could be materially affected by changes in these estimates brought about by changes in the factors mentioned. Any reduction in the estimated useful lives of the property and equipment would increase depreciation and amortization expense and decrease noncurrent assets.

The estimated useful life of property and equipment is discussed in Note 3 to financial statements. There is no change in the estimated useful life of property and equipment in 2018 and 2017.

The carrying amounts of property and equipment as at December 31, 2018 and 2017 amounted to P1,896,032 and P3,021,269, respectively (see Note 9).

*Estimation of Retirement Benefits Liability and Costs*

The cost of defined benefits retirement plans, as well as the present value of the retirement benefits obligation, is determined using actuarial valuations. The actuarial valuations involves making various assumptions. These include the determination of the discount rates, and future salary increases, among others. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefits obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting period.

The Company has retirement benefits liability amounting to P764,908 and P1,491,441 as at December 31, 2018 and 2017, respectively (see Note 17).

*Recognition of Deferred Income Tax Assets*

The Company reviews its deferred income tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. The Company also reviews the expected timing and tax rates upon reversal of temporary differences and adjusts the impact on deferred income tax accordingly. The Company's assessment on the recognition of deferred income tax assets is based on the forecasted taxable income of the subsequent reporting periods. This forecast is based on the Company's past results and future expectations on revenues and expenses. While the Company believes that its assumptions are appropriate and reasonable, significant changes in these assumptions may materially affect the Company's assessment of the realizability of deferred income tax assets and may lead to future addition to the provision for deferred income tax.

The Company has recognized deferred income tax assets amounting to P789,028 and P1,006,988 as at December 31, 2018 and 2017, respectively (see Note 18).

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**5. Cash and Cash Equivalents**

This account consists of:

	<i>Note</i>	2018	2017
Cash on hand		P191,000	P201,000
Cash in banks	19	51,989,421	24,440,298
Cash equivalents	19	-	50,000,000
		<b>P52,180,421</b>	<b>P74,641,298</b>

Cash in banks earns interest at the respective bank deposit rates.

Interest income recognized in profit or loss amounted to P1,763,211 and P821,986 in 2018 and 2017, respectively.

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## 6. Trade and Other Receivables

This account consists of:

	Note	2018	2017
Trade:			
Related parties	13	P167,548,864	P238,999,476
Third parties		55,195,223	69,433,925
Non-trade		32,699,199	29,398,431
Receivable from employees		327,365	411,114
	19	255,770,651	338,242,946
Less allowance for impairment losses on trade receivables		1,503,922	1,503,922
	19	P254,266,729	P336,739,024

The Company's trade receivables are non-interest-bearing and are generally on a 30 to 90-day credit term.

Non-trade receivables pertain to receivables from suppliers for the reimbursements of expenses made by the Company for brand promotions. These are non-interest-bearing and are generally on a 30-day credit term.

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## 7. Inventories

This account consists of:

	Note	2018	2017
At cost:			
Spirits		P521,809,925	P569,082,470
Wines		39,785,719	55,484,506
	15	P561,595,644	P624,566,976

Cost of goods sold recognized in profit or loss amounted to P722,487,888 and P623,615,304 in 2018 and 2017, respectively (see Note 15).

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## 8. Prepaid Expenses and Other Current Assets

This account consists of:

	2018	2017
Advances to suppliers	P303,986,181	P188,500,321
Prepaid expenses:		
Duties and taxes	46,430,770	53,209,429
Other import charges	34,537	493,118
Others	201,000	-
	P350,652,488	P242,202,868

Advances to suppliers pertain to partial down payment made by the Company to suppliers and will be applied against future progress billings.

## 9. Property and Equipment

The movements and balances in this account are as follows:

	Transportation and Delivery Equipment	Furniture and Fixtures	Office Equipment	Leasehold Improvements	Total
<b>Cost</b>					
December 31, 2016	P9,194,414	P810,359	P463,744	P1,794,809	P12,263,326
Additions	955,894	241,071	96,633	-	1,293,598
Disposals	(1,196,857)	-	-	-	(1,196,857)
December 31, 2017	8,953,451	1,051,430	560,377	1,794,809	12,360,067
Additions	-	20,955	4,374	-	25,329
December 31, 2018	8,953,451	1,072,385	564,751	1,794,809	12,385,396
<b>Accumulated Depreciation and Amortization</b>					
December 31, 2016	6,216,831	681,053	432,182	1,794,809	9,124,875
Depreciation and amortization	1,234,930	124,470	51,380	-	1,410,780
Disposals	(1,196,857)	-	-	-	(1,196,857)
December 31, 2017	6,254,904	805,523	483,562	1,794,809	9,338,798
Depreciation and amortization	922,269	174,105	54,192	-	1,150,566
December 31, 2018	7,177,173	979,628	537,754	1,794,809	10,489,364
<b>Carrying Amounts</b>					
December 31, 2017	P2,698,547	P245,907	P76,815	P -	P3,021,269
December 31, 2018	P1,776,278	P92,757	P26,997	P -	P1,896,032

Depreciation and amortization expense for the years ended December 31, 2018 and 2017 were charged as part of operating expenses.

Fully depreciated property and equipment that are still being used by the Company have a total cost of P1,794,809 as at December 31, 2018 and 2017.

## 10. Refundable Deposits

This account consists of:

	Note	2018	2017
Security deposits	16	P706,085	P687,852
Others		167,851	154,458
	19	P873,936	P842,310

## 11. Trade and Other Payables

This account consists of:

	Note	2018	2017
Trade payables	19	P8,137,340	P9,231,436
Nontrade payables:			
Third parties	19	30,292,247	28,599,993
Related parties	13, 19	1,086,113	3,339,714
Accrued expenses	19	389,768	7,350,043
Output VAT - net		10,538,341	4,721,990
Statutory obligations		868,348	764,925
Others	19	252,416	506,482
		<b>P51,564,573</b>	<b>P54,514,583</b>

Trade payables are non-interest-bearing and are generally on a 30 to 60-day payment term.

Non-trade payables are amounts owed to non-trade suppliers such as manpower agencies, freight companies and other non-trade transactions. These are non-interest-bearing and are generally on a 30-day payment term, except for related party balance which is due on demand.

Accrued expenses consist mainly of accruals for utilities, rent, interest and other operating charges.

## 12. Loans Payable

This account pertains to unsecured, peso-denominated loans from various local banks with maturities of less than one (1) year and bear fixed annual interest of 2.875% and were intended to finance the Company's working capital requirements.

Loans payable amounting to P100,000,000 was paid in 2018. Interest expense recognized in profit or loss relating to these loans amounted to P750,191, and P555,674 in 2018 and 2017, respectively.

## 13. Related Party Transactions

Transactions and account balances with related parties as at and for the years ended December 31 are as follows:

Category	Year	Note	Transactions During the Year	Outstanding Balance			Terms	Conditions
				Trade Receivables	Advances from Parent Company	Nontrade Payable		
<b>Parent Company</b>								
• Advances	2018	c	P -	P -	P -	P -	2 years, interest bearing	Unsecured
	2017	c	-	-	20,000,000	-		
• Interest	2018	c	59,000	-	-	-		
	2017	c	150,500	-	-	-		
<b>Entities under Common Control</b>								
• Sale of goods	2018	6, a	698,465,965	167,548,864	-	-	30 days credit term; non-interest bearing	Unsecured, no impairment
	2017	6, a	493,533,242	238,999,476	-	-		
• Rent expense	2018	b	1,020,000	-	-	-		
	2017	b	5,171,636	-	-	-		
• Advances	2018	11, d	1,086,113	-	-	1,086,113	Due on demand, non-interest bearing	Unsecured
	2017	11, d	3,339,714	-	-	3,339,714		
	<b>2018</b>			<b>P167,548,864</b>	<b>P -</b>	<b>P1,086,113</b>		
	<b>2017</b>			<b>P238,999,476</b>	<b>P20,000,000</b>	<b>P3,339,714</b>		

- a. In the normal course of business, the Company distributes wines and liquors to entities under common control.
- b. The Company entered into lease agreements with an entity under common control for its office space and warehouse (see Note 16).
- c. The Company received cash advances from its Parent Company in a form of promissory notes. These advances earn fixed annual interest rate of 1.8% with maturities of two (2) years.

In 2018, the Company paid the outstanding advances from the Parent Company amounting to P20,000,000.

- d. Cash advances obtained from entities under common control for working capital requirements.
- e. There is no key management compensation since the key management roles are functionally domiciled under the Parent Company.

Amounts owed by and owed to related parties are to be settled in cash.

## 14. Equity

### Capital Stock

The movements and balances of this account as at December 31, 2018 and 2017 are follows:

	2018		2017	
	Number of Shares	Amount	Number of Shares	Amount
<b>Authorized P100 par value</b>	<b>7,500,000</b>	<b>P750,000,000</b>	<b>7,500,000</b>	<b>P750,000,000</b>
<b>Issued and Outstanding</b>				
Balance at beginning of year	7,500,000	P750,000,000	3,500,000	P350,000,000
Stock issuances	-	-	4,000,000	400,000,000
<b>Balance at end of year</b>	<b>7,500,000</b>	<b>P750,000,000</b>	<b>7,500,000</b>	<b>P750,000,000</b>

Ordinary shares carry one vote per share and a right to dividends.

On December 8, 2016, the Company's BOD approved the increase in its authorized capital stock from P350,000,000 divided into 3,500,000 common shares to P750,000,000 divided into 7,500,000 common shares, both at P100 par value to accommodate the stock dividends declared.

On July 5, 2017, the SEC approved the Company's increase in authorized capital stock. Upon approval of the increase in authorized capital stock, the stock dividends amounting to P400,000,000 were applied against the increase in authorized capital stock and the related shares were issued.

### Declaration of Dividends

On November 28, 2017, the Company's BOD approved the declaration of cash dividends of P6.67 per share or an aggregate amount of P50,000,000, payable to stockholders of record as of the same date.

On December 18, 2018, the Company's BOD approved the declaration of cash dividends in the total amount of P25,000,000, payable to stockholders as of the same date.



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## 15. Cost of Goods Sold

This account consists of:

	Note	2018	2017
Inventory at beginning of year		P624,566,976	P763,042,860
Add: Net purchases		659,516,556	485,139,420
Total goods available for sale		1,284,083,532	1,248,182,280
Less: Inventory at end of year	7	561,595,644	624,566,976
		P722,487,888	P623,615,304

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## 16. Lease Agreements

### Company as Lessee

- a. The Company entered into a lease agreement with a third party for a warehouse. The term of the lease is for a period of five (5) years from January 1, 2016 to December 31, 2020. The lease has an annual escalation rate of 5%.
- b. The Company entered into a lease agreement with an entity under common control for a warehouse with a lease term of three (3) years commencing on July 1, 2015 to June 30, 2017. The lease agreement was renewed for another three (3) years from July 1, 2017 to June 30, 2020 (see Note 13).

The lease agreements provide for, among others, security deposits amounting to P706,085 and P687,852 as at December 31, 2018 and 2017, respectively, which are shown under "Refundable deposits" account in the statements of financial position (see Note 10).

Total rent expense on the above-mentioned lease agreements recognized in profit or loss amounted to P3,197,307 and P5,532,900 in 2018 and 2017, respectively.

Future minimum lease payments under non-cancellable operating leases as at December 31 are as follows:

	2018	2017
Not later than one year	P3,348,172	P3,317,307
Later than one year but not later than five years	2,982,781	6,984,953
	P6,330,953	P10,302,260

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## 17. Retirement Benefits Liability

The Company has an unfunded, noncontributory, defined benefits retirement plan covering all of its permanent, regular, and full-time employees. Costs are determined in accordance with the actuarial studies made for the plan. Under the plan, the employees are entitled to retirement benefits equivalent to an amount computed based on Republic Act No. 7641, *Retirement Pay Law*, equivalent to one-half month's salary for every year of service, with six months or more of service considered as one year.

Costs are determined in accordance with the actuarial studies made for the plan. Annual cost is determined using the projected unit credit method. The Company's latest actuarial valuation date is December 31, 2018.



The succeeding tables summarize the components of retirement benefits cost under a defined benefits retirement plan recognized in profit or loss and the amount of retirement benefits liability recognized in the statements of financial position.

	2018	2017
<b>Balance at beginning of year</b>	<b>P1,491,441</b>	<b>P1,158,421</b>
<b>Recognized in profit or loss</b>		
Interest cost	80,240	62,323
Current service cost	139,889	270,697
	<b>220,129</b>	<b>333,020</b>
<b>Recognized in other comprehensive income</b>		
Actuarial gain arising from:		
Financial assumptions	(266,274)	-
Demographic assumptions	(253,953)	-
Experience adjustments	(426,435)	-
	<b>(946,662)</b>	<b>-</b>
<b>Balance at end of year</b>	<b>P764,908</b>	<b>P1,491,441</b>

The retirement benefits costs is recognized as part of "Salaries and other employee benefits" account under operating expenses in profit or loss.

The plan exposes the Company to actuarial risks such as interest rate risk, longevity risk and salary risk as follows:

*Interest Risk*

The present value of the defined benefits obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation.

*Longevity and Salary Risks*

The present value of the defined benefits obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

The principal actuarial assumptions used to determine retirement benefits in 2018 and 2017 are as follows:

	2018	2017
Discount rate	7.53%	5.38%
Future salary increases	3.00%	3.00%

Assumptions for mortality and disability rates are based on published statistics and mortality and disability tables.

The weighted average duration of defined benefits obligation is 13 and 18 years as at December 31, 2018 and 2017, respectively.

As at December 31, the reasonably possible changes to one of the relevant actuarial assumptions, while holding all other assumptions constant, would have affected the defined benefits liability by the amounts below:

	2018		2017	
	Defined Benefits Liability		Defined Benefits Liability	
	1 Percent Increase	1 Percent Decrease	1 Percent Increase	1 Percent Decrease
Discount rate	(P65,247)	P49,948	(P95,154)	P65,325
Salary increase rate	30,596	(15,298)	59,658	(29,829)

Although the analysis does not take into account the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumption shown.

*Funding Arrangements*

The plan is unfunded and non-contributory. Benefit claims under the defined benefits retirement obligation are paid directly by the Company when they become due.

*Asset-Liability Matching (ALM)*

The Company does not perform any ALM study. The Company has no plan assets to match against liabilities under the retirement benefits obligation.

Maturity analysis based on a ten (10) year projection of the expected future benefit payments is as follows:

	December 31, 2018				
	Carrying Amount	Contractual Cash Flows	Within 1 Year	Within 1-5 Years	More than 5 Years
Retirement benefits liability	P764,908	P783,151	P -	P -	P783,151

**18. Income Taxes**

The components of provision for income tax are shown below:

	2018	2017
Current	P25,970,854	P18,636,618
Deferred	(67,821)	(288,407)
	P25,903,033	P18,348,211

The current provision for income tax represents regular corporate income tax (RCIT) in both years.

The reconciliation of the provision for income tax computed at the statutory income tax rate and the provision for income tax shown in profit or loss for the years ended December 31 is as follows:

	2018	2017
Income before income tax	P83,185,518	P58,101,980
Provision for income tax at the statutory income tax rate of 30%	P24,955,655	P17,430,594
Additions to (reductions from) income taxes resulting to the tax effects of:		
Non-deductible expenses	1,476,341	1,164,213
Interest income subjected to final tax	(528,963)	(246,596)
Provision for income tax	P25,903,033	P18,348,211

The components of the Company's net deferred income tax assets are as follows:

	2018	2017
Allowance for impairment losses on trade receivables	P451,177	P451,177
Retirement benefits liability	229,472	447,432
Accrued rent expense	108,379	108,379
Unrealized foreign exchange gain - net	(6,423)	(8,205)
	P782,605	P998,783

The movements of net deferred income tax assets are accounted for as follows:

	2018	2017
Amount charged to profit or loss	P67,821	P288,407
Amount charged to OCI relating to remeasurement on defined benefits plan	(283,999)	-
Increase (decrease) in net deferred income tax assets	(P216,178)	P288,407

## 19. Financial Risk and Capital Management

### Objectives and Policies

The BOD has overall responsibility for the establishment and oversight of the Company's risk management framework. The BOD has delegated to the management the responsibility of developing and monitoring the Company's risk management policies.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The BOD oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

The Company has exposure to the following risks from its use of financial instruments:

- Credit Risk
- Liquidity Risk
- Market Risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risks, and the Company's management of capital.

#### Risk Management Framework

The Company's overall risk management program seeks to minimize potential adverse effects on the financial performance of the Company. The policies for managing specific risks are summarized below:

#### Credit Risk

Credit risk represents the risk of loss the Company would incur if credit customers and counterparties fail to perform their contractual obligations. The Company's credit risk arises from the Company's use of its financial assets. Credit risk management involves entering into financial transactions only with counterparties with acceptable credit rating.

The carrying amount of financial assets represents the maximum credit exposure is as follows:

	<i>Note</i>	<b>2018</b>	<b>2017</b>
Cash in banks and cash equivalents	5	<b>P51,989,421</b>	P74,440,298
Trade and other receivables - net	6	<b>254,266,729</b>	336,739,024
Refundable deposits	10	<b>873,936</b>	842,310
		<b>P307,130,086</b>	P412,021,632

As at December 31, 2018 and 2017, the aging per class of financial assets is as follows:

	December 31, 2018				
	Neither Past Due nor Impaired	Past Due			Total
		1 to 30 Days	31 to 120 Days	Past Due and Impaired	
Cash in banks and cash equivalents	<b>P51,989,421</b>	P -	P -	P -	<b>P51,989,421</b>
Trade and other receivables	<b>189,569,830</b>	54,738,482	9,958,417	1,503,922	<b>255,770,651</b>
Refundable deposits	<b>873,936</b>	-	-	-	<b>873,936</b>
	<b>P242,433,187</b>	<b>P54,738,482</b>	<b>P9,958,417</b>	<b>P1,503,922</b>	<b>P308,634,008</b>

	December 31, 2017				
	Neither Past Due nor Impaired	Past Due			Total
		1 to 30 Days	31 to 120 Days	Past Due and Impaired	
Cash in banks and cash equivalents	<b>P74,440,298</b>	P -	P -	P -	<b>P74,440,298</b>
Trade and other receivables	<b>207,131,462</b>	79,683,036	49,924,526	1,503,922	<b>338,242,946</b>
Refundable deposits	<b>842,310</b>	-	-	-	<b>842,310</b>
	<b>P282,414,070</b>	<b>P79,683,036</b>	<b>P49,924,526</b>	<b>P1,503,922</b>	<b>P413,525,554</b>

Based on the historical default rates, the Company believes that no impairment allowance is necessary in respect of trade receivables past due but not impaired because such accounts relate to customers that have good payment records with the Company. On the other hand, the Company believes that no impairment loss is necessary in respect of other receivables since they are neither past due nor impaired.

As at December 31, 2018 and 2017, the Company does not expect any counterparty, other than trade customers, to fail to meet its obligations, thus, related risk is deemed to be insignificant.

*Credit Risk Concentration*

The Company's exposure to credit risk arises from default of counterparty. Generally, the maximum credit risk exposure of receivables is its carrying amount without considering collaterals or credit enhancements, if any. The Company has no significant concentration of credit risk since the Company deals with a large number of customers. The Company does not execute any credit guarantee in favor of any counterparty.

*Credit Quality*

In monitoring and controlling credit extended to counterparty, the Company adopts a comprehensive credit rating system based on financial and nonfinancial assessments of its customers. Financial factors being considered comprised of the financial standing of the customer while the nonfinancial aspects include but are not limited to the assessment of the customer's nature of business, management profile, industry background, payment habit and both present and potential business dealings with the Company.

The credit quality of the Company's financial assets that are neither past due nor impaired as at December 31, 2018 and 2017 are as follows:

	December 31, 2018			Total
	High Grade	Standard Grade	Substandard Grade	
Cash in banks and cash equivalents	P51,989,421	P -	P -	P51,989,421
Trade and other receivables	189,569,830	-	-	189,569,830
Refundable deposits	873,936	-	-	873,936
	P242,433,187	P -	P -	P242,433,187

	December 31, 2017			Total
	High Grade	Standard Grade	Substandard Grade	
Cash in banks and cash equivalents	P74,440,298	P -	P -	P74,440,298
Trade and other receivables	207,131,462	-	-	207,131,462
Refundable deposits	842,310	-	-	842,310
	P282,414,070	P -	P -	P282,414,070



The credit quality of financial assets were determined as follows:

- a. Cash in banks and cash equivalents - the credit risk of this financial instrument is considered negligible since the counterparties are reputable entities with high quality external credit ratings based on the nature of the counterparty and the Company's internal rating system.
- b. Trade and other receivables - the credit quality is assessed as high grade since these have a high probability of collection and there is no history of default.
- c. Refundable deposits - the credit quality is assessed to be as high grade since these security deposits are refundable at the end of the lease term which is expected from a reputable service provider.

*Expected Credit Loss Assessment as at December 31, 2018*

The Company allocates each exposure to a credit risk on data that are determined to be predictive of the risk of loss (including but not limited to external ratings, audited financial assets, management accounts and cash flow projections and available press information about customers) and applying expected credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default.

Exposures within each credit risk grade are assessed based on delinquency and actual credit loss experience. The Company considered both historical loss rate and forward-looking assumptions. The Company assessed that the impact of forward-looking assumption is immaterial.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk by maintaining a balance between continuity of funding and flexibility in operation. Treasury controls and procedures are in place to ensure that sufficient cash is maintained to cover daily operational and working capital requirements, as well as capital expenditures and debt service payments. Management closely monitors the Company's future and contingent obligations and sets up required cash reserves as necessary in accordance with internal requirements.

The following are contractual maturities of financial liabilities:

	As at December 31, 2018			
	Carrying Amount	Contractual Cash Flows	1 Year or Less	More than 1 Year
<b>Financial Liabilities</b>				
Trade and other payables*	P40,157,884	P40,157,884	P40,157,884	P -
Dividends payable	75,000,000	75,000,000	75,000,000	-
<b>Total</b>	<b>P115,157,884</b>	<b>P115,157,884</b>	<b>P115,157,884</b>	<b>P -</b>

\*Excluding statutory obligations and Output VAT amounting to P11,406,689.

	As at December 31, 2017			
	Carrying Amount	Contractual Cash Flows	1 Year or Less	More than 1 Year
<b>Financial Liabilities</b>				
Trade and other payables*	P49,027,668	P49,027,668	P49,027,668	P -
Loans payable	100,000,000	100,239,583	100,239,583	-
Advances from Parent Company	20,000,000	20,365,000	20,365,000	-
Dividends payable	50,000,000	50,000,000	50,000,000	-
<b>Total</b>	<b>P219,027,668</b>	<b>P219,632,251</b>	<b>P219,632,251</b>	<b>P -</b>

\*Excluding statutory obligations and Output VAT amounting to P5,486,915

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and other market prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. The Company is subject to various risks, including foreign currency risk and interest rate risk.

*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 the market interest rates.

The Company's exposure to the risks for changes in market interest rates relates mainly to the Company's loans payable and advances from Parent Company. The Company manages this risk by transacting its loans either with short-term maturities or with fixed interest rates. Accordingly, management believes that the Company does not have significant interest rate risk.

*Foreign Currency Risk*

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's exposure to foreign currency risk relates primarily to the Company's foreign currency-denominated monetary assets and monetary liabilities. The currencies in which these transactions are primarily denominated are in United States dollar (USD), Singaporean dollar (SGD), British pound (GBP) and Euro (EUR).

The following table shows the Company's foreign currency-denominated monetary assets and monetary liabilities and their Philippine peso (PHP) equivalents as at December 31:

	December 31, 2018				PHP Equivalent
	USD	SGD	GBP	EUR	
<b>Foreign Currency - Denominated Monetary Assets</b>					
Cash in banks	152,275	-	-	-	8,028,557
Trade receivables	-	-	-	-	-
	<b>152,275</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,028,557</b>
<b>Foreign Currency - Denominated Monetary Liabilities</b>					
Trade payables	(1,823)	-	-	(2,935)	(273,120)
<b>Net Foreign Currency - Denominated Monetary Assets (Liabilities)</b>	<b>150,452</b>	<b>-</b>	<b>-</b>	<b>(2,935)</b>	<b>7,755,437</b>



	December 31, 2017				PHP
	USD	SGD	GBP	EUR	Equivalent
Foreign Currency - Denominated Monetary Assets					
Cash in banks	22,896	-	-	-	1,143,207
Trade receivables	-	-	-	5,872	350,048
	22,896	-	-	5,872	1,493,255
Foreign Currency - Denominated Monetary Liabilities					
Trade payables	(31,840)	(244)	(1,273)	-	(1,684,317)
Net Foreign Currency - Denominated Monetary Assets (Liabilities)	(8,944)	(244)	(1,273)	5,872	(191,062)

In translating the foreign currency-denominated monetary assets and monetary liabilities into Philippine peso amounts, the significant exchange rates applied are as follows:

	2018	2017
USD	52.58	49.93
SGD	38.47	37.32
GBP	66.73	67.12
EUR	60.31	59.61

The following table demonstrates sensitivity of cash flows due to changes in foreign exchange rates with all variables held constant.

December 31, 2018		
	Percentage Increase (Decrease) in Foreign Exchange Rates	Effect in Income before Income Tax
USD	5%	P395,538 increase
SGD	3%	-
GBP	(6%)	-
EUR	1%	1,770 decrease

December 31, 2017		
	Percentage Increase in Foreign Exchange Rates	Effect in Income before Income Tax
USD	5%	P15,630 decrease
SGD	7%	1,032 decrease
GBP	10%	5,981 decrease
EUR	9%	22,053 increase

Changes in foreign exchange rates are based on the average of the banks' forecasted closing exchange rates during the first quarter of the following calendar year. A movement in the opposite direction would increase/decrease income before income tax by the same amount, on the basis that all other variables remains constant.

#### Capital Risk Management

The Company's objectives, when managing capital, are to increase the value of stockholders' investment and maintain high growth by applying free cash flows to selective investments that would further the Company's worth. The Company sets strategies with the objective of establishing a versatile and resourceful financial management and capital structure.

The Company defines capital as paid-in capital stock, retained earnings and accumulated remeasurements on retirement benefits.

There were no changes in the Company's approach to capital management during the year.

The Chief Financial Officer has the overall responsibility for monitoring of capital in proportion to risk. Profiles for capital ratios are set in the light of changes in the Company's external environment and the risks underlying the Company's business operations and industry.

The Company is not subject to externally-imposed capital requirements.

## 20. Fair Values of Financial Instruments

### *Cash and Cash Equivalents, Trade and Other Receivables, Trade and Other Payables and Dividends Payable*

The carrying amounts of the Company's cash and cash equivalents, trade and other receivables, trade and other payables (excluding statutory obligations and Output VAT) and dividends payable approximate their fair values due to the short-term maturities of these financial instruments.

### *Refundable Deposits*

In the case of security deposits the difference between the carrying amounts and fair values is considered immaterial by management.

### *Loans and Advances from Parent Company*

The estimated fair value of loans and advances from Parent Company is based on the present value of expected future cash flows using the applicable market rates for similar types of loans at reporting date. The difference between the carrying amount and fair value of loans and advances from Parent Company is considered immaterial by management.

## 21. Reconciliation Between the Opening and Closing Balances for Liabilities Arising from Financing Activities

The reconciliation of movements of liabilities to cash flows arising from financing activities in 2018 are as follow:

	December 31, 2018				
	Loans Payable	Accrued Interest	Advances from Parent Company	Dividends Payable	Total
Balances at beginning of year	P100,000,000	P76,507	P20,000,000	P50,000,000	P170,076,507
Payment of principal	(100,000,000)	-	(20,000,000)	-	(120,000,000)
Interest expense	-	809,191	-	-	809,191
Interest paid	-	(885,698)	-	-	(885,698)
Dividends declared	-	-	-	25,000,000	25,000,000
Balances at end of year	P -	P -	P -	P75,000,000	P75,000,000

	December 31, 2017				
	Loans Payable	Accrued Interest	Advances from Parent Company	Dividends Payable	Total
Balances at beginning of year	P -	P -	P50,000,000	P -	P50,000,000
Proceeds from loans payable	100,000,000	-	-	-	100,000,000
Payments of:					
Advances from Parent Company	-	-	(30,000,000)	-	(30,000,000)
Interest	-	(629,667)	-	-	(629,667)
Interest expense	-	706,174	-	-	706,174
Dividends declared	-	-	-	50,000,000	50,000,000
Balances at end of year	P100,000,000	P76,507	P20,000,000	P50,000,000	P170,076,507

## 22. Supplementary Information Required by the Bureau of Internal Revenue (BIR) Based on Revenue Regulations No.15-2010

In addition to the disclosures mandated under PFRS, and such other standards and/or conventions as may be adopted, companies are required by the BIR to provide in the notes to financial statements, certain supplementary information for the taxable year. The amounts relating to such supplementary information may not necessarily be the same with those amounts disclosed in the financial statements which were prepared in accordance with PFRS. The following are the tax supplementary information required for the taxable year ended December 31, 2018:

### a. VAT

Output VAT	P106,991,317
Basis of the Output VAT:	
Vatable sales	P889,740,216
Sale to government	1,854,089
Zero-rated sales	31,157,172
Input VAT	
Beginning of the year	-
Current year's domestic purchases:	
a. Goods other than capital goods	7,041,416
b. Services lodged under other accounts	8,823,643
VAT on importations	73,916,011
Tax credits/payments and other adjustments	6,671,906
Balance at the end of the year	P10,538,341

### b. Customs Duties

Landed cost of imports	P615,966,762
Customs duties paid or accrued	46,884,929
	P662,851,691

### c. Excise Taxes

Imported excisable items	
a. Spirits	P125,064,721
b. Wines	7,837,534
	P132,902,255

d. Documentary Stamp Tax

On loan instruments	P9,555
On others	362,216
	<b>P371,771</b>

e. Withholding Taxes

Tax on compensation and benefits	P646,461
Expanded withholding taxes	1,975,107
	<b>P2,621,568</b>

f. All Other Taxes (Local and National)

<i>Other taxes paid during the year included under "Taxes and licenses" account under Operating Expenses</i>	
License and permit fees	P3,493,283
Others	98,318
	<b>P3,591,601</b>

g. Tax Cases

As at December 31, 2018, the Company is not involved in any tax cases and has not received deficiency tax assessments from the BIR.

Information on tariff fee paid or accrued are not applicable since the Company did not enter into transaction which will result to payment or accrual of such taxes.



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## REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders  
**Meritus Prime Distributions, Inc.**  
704 Federal Tower, Dasmariñas Street  
Binondo, Manila

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of Meritus Prime Distributions, Inc. (the "Company"), a wholly-owned subsidiary of Cosco Capital, Inc., which comprise the statements of financial position as at December 31, 2017 and 2016, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended 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 *Auditors' 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 audit of the 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.



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

Management is responsible for the preparation and fair presentation of the 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 its operations, or has no realistic alternative but to do so.

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

### *Auditors' Responsibilities for the Audit of the 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 auditors' 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, they could reasonably be expected to influence the economic decisions of users taken on the basis of these 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 audit 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 auditors' 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 auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.



- 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 audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010 of the Bureau of Internal Revenue**

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 21 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

**R.G. MANABAT & CO.**

*Maria Arleene C. Yu*  
MARIA ARLEENE C. YU

Partner

CPA License No. 0108855

Tax Identification No. 225-068-761

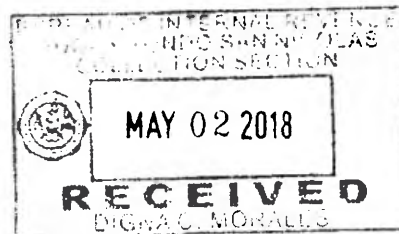
BIR Accreditation No. 08-002511-041-2018

Issued February 6, 2018, valid until February 5, 2021

PTR No. 6615158MD

Issued January 3, 2018 at Makati City

April 26, 2018  
Makati City, Metro Manila





**MERITUS PRIME DISTRIBUTIONS, INC.**  
**(A Wholly-owned Subsidiary of Cosco Capital, Inc.)**

**STATEMENTS OF FINANCIAL POSITION**

December 31

	Note	2017	2016
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	4	P74,641,298	P90,606,580
Trade and other receivables - net	5	336,739,024	291,131,830
Inventories	6	624,566,976	763,042,860
Prepaid expenses and other current assets	7	242,202,868	43,985,020
<b>Total Current Assets</b>		<b>1,278,150,166</b>	<b>1,188,766,290</b>
<b>Noncurrent Assets</b>			
Property and equipment - net	8	3,021,269	3,138,451
Deferred income tax assets - net	17	998,783	710,376
Refundable deposits	9	842,310	1,430,887
<b>Total Noncurrent Assets</b>		<b>4,862,362</b>	<b>5,279,714</b>
		<b>P1,283,012,528</b>	<b>P1,194,046,004</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Trade and other payables	10	P54,514,583	P61,833,426
Loans payable	11	100,000,000	-
Dividends payable		50,000,000	-
Advances from Parent Company	12	20,000,000	50,000,000
Income tax payable		7,051,346	21,214,032
<b>Total Current Liabilities</b>		<b>231,565,929</b>	<b>133,047,458</b>
<b>Noncurrent Liabilities</b>			
Retirement benefits liability	16	1,491,441	1,158,421
Accrued rent expense	12	361,264	-
<b>Total Noncurrent Liabilities</b>		<b>1,852,705</b>	<b>1,158,421</b>
<b>Total Liabilities</b>		<b>233,418,634</b>	<b>134,205,879</b>
<b>Equity</b>			
Capital stock	13	750,000,000	350,000,000
Stock dividends distributable	13	-	400,000,000
Retained earnings		299,491,129	309,737,360
Accumulated remeasurements on retirement benefits		102,765	102,765
<b>Total Equity</b>		<b>1,049,593,894</b>	<b>1,059,840,125</b>

See Notes to the Financial Statements.

P1,283,012,528 P1,194,046,004

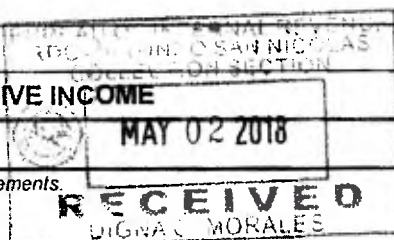
RUBEN TORRES SAN NICOLAS  
COLLECTION SECTION

MAY 02 2018

**MERITUS PRIME DISTRIBUTIONS, INC.**  
**(A Wholly-owned Subsidiary of Cosco Capital, Inc.)**  
**STATEMENTS OF COMPREHENSIVE INCOME**

		Years Ended December 31	
	Note	2017	2016
<b>NET SALES</b>	12	<b>P842,384,728</b>	P979,877,868
<b>COST OF GOODS SOLD</b>	14	<b>623,615,304</b>	728,689,540
<b>GROSS PROFIT</b>		<b>218,769,424</b>	251,188,328
<b>OPERATING EXPENSES</b>			
Advertising		95,305,310	31,358,349
Freight out		14,656,127	4,910,283
Salaries and other employee benefits	16	12,239,810	11,832,702
Outside services		7,075,584	11,774,062
Taxes and licenses		6,872,986	3,411,158
Rent	15	5,532,900	921,436
Deficiency taxes		4,001,456	1,006,259
Insurance		2,901,488	3,331,183
Transportation and travel		2,745,949	4,167,098
Depreciation and amortization	8	1,410,780	1,179,697
Representation and entertainment		1,078,121	1,023,300
Management fee	12	-	30,000,000
Miscellaneous		2,108,402	1,885,295
		<b>155,928,913</b>	106,800,822
<b>INCOME FROM OPERATIONS</b>		<b>62,840,511</b>	144,387,506
<b>OTHER INCOME (CHARGES) - Net</b>			
Interest income	4	821,986	143,813
Bank charges		(102,936)	(86,407)
Interest expense	11, 12	(706,174)	(5,282,576)
Commission expense		(1,026,073)	(5,897,745)
Foreign exchange loss - net		(3,725,334)	(2,828,333)
		<b>(4,738,531)</b>	(13,951,248)
<b>INCOME BEFORE INCOME TAX</b>		<b>58,101,980</b>	130,436,258
<b>PROVISION FOR INCOME TAX</b>	17	<b>18,348,211</b>	39,377,660
<b>NET INCOME</b>		<b>39,753,769</b>	91,058,598
<b>OTHER COMPREHENSIVE INCOME</b>			
<b>Item that will never be reclassified to profit or loss</b>			
Remeasurement gain on retirement benefits	16	-	146,807
Income tax effect		-	(44,042)
		-	102,765
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>P39,753,769</b>	P91,161,363

See Notes to the Financial Statements.



**MERITUS PRIME DISTRIBUTIONS, INC.**  
**(A Wholly-owned Subsidiary of Cosco Capital, Inc.)**  
**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	Capital Stock (Note 13)	Stock Dividends Distributable (Note 13)	Retained Earnings (Note 13)	Accumulated Remeasurements on Retirement Benefits (Note 16)	Total
As at December 31, 2015	P350,000,000	P -	P618,678,762	P -	P968,678,762
Net income for the year	-	-	91,058,598	-	91,058,598
Other comprehensive income for the year	-	-	-	102,765	102,765
Total comprehensive income	-	-	91,058,598	102,765	91,161,363
Transaction with the owners					
Stock dividends declared	-	400,000,000	(400,000,000)	-	-
As at December 31, 2016	350,000,000	400,000,000	309,737,360	102,765	1,059,840,125
Net income/total comprehensive income for the year	-	-	39,753,769	-	39,753,769
Transaction with owners					
Cash dividends declared	-	-	(50,000,000)	-	(50,000,000)
Stock issuances	400,000,000	(400,000,000)	-	-	-
Transactions with owners	400,000,000	(400,000,000)	(50,000,000)	-	(50,000,000)
As at December 31, 2017	P750,000,000	P -	P299,491,129	P102,765	P1,049,593,894

See Notes to the Financial Statements.

**MERITUS PRIME DISTRIBUTIONS, INC.**  
**(A Wholly-owned Subsidiary of Cosco Capital, Inc.)**

**STATEMENTS OF CASH FLOWS**

		Years Ended December 31	
	Note	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax		P58,101,980	P130,436,258
Adjustments for:			
Depreciation and amortization	8	1,410,780	1,179,697
Interest expense	11, 12	706,174	5,282,576
Rent expense in excess of billings		361,264	-
Retirement benefits costs	16	333,020	1,305,228
Unrealized foreign exchange gain		(27,349)	(294,425)
Interest income	4	(821,986)	(143,813)
Operating income before working capital changes		60,063,883	137,765,521
Decrease (increase) in:			
Trade and other receivables		(45,607,194)	314,988,060
Inventories		138,475,884	311,313,476
Prepaid expenses and other current assets		(198,217,848)	181,237,990
Increase (decrease) in trade and other payables		(7,355,973)	4,314,085
Cash generated from (absorbed in) operations		(52,641,248)	949,619,132
Income taxes paid		(32,799,304)	(51,380,963)
Interest paid		(629,667)	(5,282,576)
Interest received		821,986	143,813
Net cash provided by (used in) operating activities		(85,248,233)	893,099,406
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions to property and equipment	8	(1,293,598)	(1,080,892)
Increase in refundable deposits		588,577	558,319
Net cash used in investing activities		(705,021)	(522,573)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from loans payable	11	100,000,000	-
Payments to:			
Advances from Parent Company		(30,000,000)	(431,000,000)
Loans payable	11	-	(390,000,000)
Dividends	13	-	(50,000,000)
Net cash provided by (used in) financing activities		70,000,000	(871,000,000)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>			
		(12,028)	(1,933)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
		(15,965,282)	21,574,900
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>			
		90,606,580	69,031,680
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>			
	4	P74,641,298	P90,606,580

*See Notes to the Financial Statements.*

**MERITUS PRIME DISTRIBUTIONS, INC.**  
**(A Wholly-owned Subsidiary of Cosco Capital, Inc.)**

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**NOTES TO THE FINANCIAL STATEMENTS**

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**1. Reporting Entity**

Meritus Prime Distributions, Inc. (the "Company") was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on February 17, 2010 to engage primarily in buying, selling, importing, exporting, manufacturing, repackaging, preparing, bottling, and distribution on wholesale of all kinds of wines, spirits, liquor's, beers and other alcoholic and non-alcoholic beverages and drinks. The Company started commercial operations on April 1, 2010.

The Company is a wholly-owned subsidiary of Cosco Capital, Inc. ("Cosco" or "Parent Company"), a company incorporated in the Philippines. Cosco is the ultimate Parent Company and its shares of stock are listed for trading at Philippine Stock Exchange (PSE).

The Company's registered office address is at Unit 704 Federal Tower, Dasmariñas St., Binondo, Manila.

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**2. Basis of Preparation**

Statement of Compliance

The financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). PFRS which are issued by the Philippine Financial Reporting Standards Council (FRSC), consist of PFRS, Philippine Accounting Standards (PAS), and Philippine Interpretations based on the International Financial Reporting Interpretations Committee (IFRIC) interpretations.

The accompanying financial statements of the Company as at and for the years ended December 31, 2017 and 2016 were approved and authorized for issue by the Company's Board of Directors (BOD) on April 26, 2018.

Basis of Measurement

The financial statements have been prepared on the historical cost basis of accounting.

Functional and Presentation Currency

The financial statements are measured using the currency of the primary economic environment in which the Company operates. The financial statements are presented in Philippine peso, which is also the Company's functional currency. All amounts are rounded to the nearest peso, except when otherwise indicated.

Management's Use of Significant Judgments, Estimates and Assumptions

The Company's financial statements prepared in accordance with PFRS require management to exercise judgments, make accounting estimates and use assumptions that affect the application of accounting policies and the amounts reported in the financial statements at the reporting date. However, uncertainty about these estimates and assumptions could result in an outcome that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

Accounting judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions are recognized in the period in which the judgments and estimates are revised and in any future period affected.

#### Judgments

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

#### *Determination of the Company's Functional Currency*

The Company considers factors, including but not limited to, the currency that mainly influences sales prices of its goods and costs of its products. Based on the economic substance of the underlying circumstances relevant to the Company, the functional currency has been determined to be the Philippine Peso. It is the currency that mainly influences the Company's operations.

#### *Operating Lease - Company as a Lessee*

The Company entered into various lease agreements for its office space and warehouses as a lessee. The Company has determined that the lessors retain all significant risks and rewards of ownership of these properties which are accounted for under operating leases.

Rent expense recognized in the profit or loss amounted to P5,532,900 and P921,436 in 2017 and 2016, respectively (see Note 15).

#### 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 date of the financial statements. Actual results could differ from such estimates.

#### *Allowance for Impairment Losses on Receivables*

The Company maintains an allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. The level of this provision is evaluated by management on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Company's relationship with the debtors, their payment behavior and known market factors. The Company reviews the age and status of receivables, and identified accounts that are to be provided with allowance on a regular basis. 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 would increase the Company's recorded operating expenses and decrease current assets.

Based on evaluation made by the management, no impairment indicator was noted on the Company's receivables in 2017 and 2016.

The carrying amount of receivables amounted to P336,739,024 and P291,131,830, net of allowance for impairment loss amounting to P1,503,922, as at December 31, 2017 and 2016, respectively (see Note 5).

#### *Determination of Net Realizable Value (NRV) of Inventories*

The Company's estimates of the NRV of inventories are based on the most reliable evidence available at the time the estimates are made, of the amount that the inventories are expected to be realized. These estimates consider the inventory obsolescence, physical deterioration, fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. A new assessment is made at NRV in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is a clear evidence of an increase in NRV because of changes in economic circumstances, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised NRV.

Management assessed that no allowance to write-down inventories to NRV was necessary as at December 31, 2017 and 2016 (see Note 6).

The cost of inventories amounted to P624,566,976 and P763,042,860 as at December 31, 2017 and 2016, respectively (see Note 6).

#### *Estimation of Useful Lives of Property and Equipment*

The Company estimates the useful lives of property and equipment based on the period over which these 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 asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible that future financial performance could be materially affected by changes in these estimates brought about by changes in the factors mentioned. Any reduction in the estimated useful lives of the property and equipment would increase depreciation expense and decrease noncurrent assets.

The estimated useful lives of property and equipment are discussed in Note 3 to the financial statements. There is no change in the estimated useful lives of property and equipment in 2017 and 2016.

The carrying amount of property and equipment amounted to P3,021,269 and P3,138,451 as at December 31, 2017 and 2016, respectively (see Note 8).

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

The Company assesses at the end of each reporting period whether there is any indication that its non-financial assets which pertain to property and equipment are impaired. If any such indication exists, the Company estimates the recoverable amount of these assets. Determining the fair value of these non-financial asset which requires the determination of the future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Company to make estimates and assumptions that can materially affect the financial statements. Future events could cause management to conclude that these assets are impaired. Any resulting impairment loss could have a material adverse impact on the Company's financial position and financial performance. The preparation of the estimated future cash flows involves significant judgment and estimations. While management believes that the assumptions made are appropriate and reasonable, significant changes in management assumptions may materially affect the assessment of recoverable values and may lead to future additional impairment charges under PFRS.

No impairment loss was recognized for the non-financial assets in 2017 and 2016.



The carrying amount of property and equipment as at December 31, 2017 and 2016 amounted to 3,021,269 and P3,138,451, respectively (see Note 8).

*Estimation of Retirement Benefits Liability and Expense*

The cost of defined benefits retirement plans, as well as the present value of the defined benefits obligation, is determined using actuarial valuations. The actuarial valuations involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefits obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting period. The Company has retirement benefits liability amounting to P1,491,441 and P1,158,421 as at December 31, 2017 and 2016, respectively (see Note 16).

*Recognition of Deferred Income Tax Assets*

The Company reviews its deferred income tax assets at each reporting date and reduces the carrying amount to the extent that is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. The Company also reviews the expected timing and tax rates upon reversal of temporary differences and adjusts the impact on deferred income tax accordingly. The Company's assessment on the recognition of deferred income tax assets is based on the forecasted taxable income of the subsequent reporting periods. This forecast is based on the Company's past results and future expectations on revenues and expenses. While the Company believes that its assumptions are appropriate and reasonable, significant changes in these assumptions may materially affect the Company's assessment of the realizability of deferred income tax assets and may lead to future addition to the provision for deferred income tax.

The Company has recognized deferred income tax assets amounting to P998,783 and P710,376 as at December 31, 2017 and 2016, respectively (see Note 17).

*Estimating Provisions and Contingencies*

The Company, in the ordinary course of business, sets up appropriate provisions for its present legal or constructive obligations in accordance with its policies on provisions and contingencies. In recognizing and measuring provisions, management takes risks and uncertainties into account.

The Company does not have any contingent legal or constructive obligation that requires provision as at December 31, 2017 and 2016.

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### 3. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in these financial statements, except for the changes in accounting policies as explained below.

#### Adoption of Amendments to Standards

The Company has adopted the following relevant and applicable amendments to standards starting January 1, 2017 and accordingly, changed its accounting policies.

- *Disclosure Initiative (Amendments to PAS 7, Statement of Cash Flows)*. The amendments address financial statements users' requests for improved disclosures about an entity's net debt relevant to understanding an entity's cash flows. The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes - e.g., by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

The Company provided a reconciliation between the opening and closing balances for liabilities arising from financing activities (see Note 20).

- *Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to PAS 12 Income Taxes)*. The amendments clarify that:
  - the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset;
  - the calculation of future taxable profit in evaluating whether sufficient taxable profit will be available in future periods excludes tax deductions resulting from the reversal of the deductible temporary differences;
  - the estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and
  - an entity assesses a deductible temporary difference related to unrealized losses in combination with all of its other deductible temporary differences, unless a tax law restricts the utilization of losses to deduction against income of a specific type.

The following amendment to standards are not expected to have impact on the Company's financial statements:

- Annual Improvements to PFRSs 2014 - 2016 Cycle - Clarification of the scope of the standard (Amendments to PFRS 12, *Disclosure of Interests in Other Entities*).

#### New Standards and Interpretations and Amendments to Standards Not Yet Adopted

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2017. However, the Company has not applied the following relevant and applicable new or amended standards in preparing these financial statements.

#### *Effective January 1, 2018*

- *PFRS 9, Financial Instruments (2014)*. PFRS 9 (2014) replaces PAS 39, *Financial Instruments: Recognition and Measurement* and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). PFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, guidance on own credit risk on financial liabilities measured at fair value and supplements the new general hedge accounting requirements published in 2013. PFRS 9 incorporates new hedge accounting requirements that represent a major overhaul of hedge accounting and introduces significant improvements by aligning the accounting more closely with risk management.

The new standard is to be applied retrospectively for annual periods beginning on or after January 1, 2018 with early adoption permitted.

The adoption of PFRS 9 will have no significant impact on the classification and measurement of the Company's financial assets and financial liabilities at January 1, 2018. Further, future adoption of the new hedge accounting requirements will have no effect on the Company's financial statements since the Company has no transactions eligible for hedge accounting. However, the adoption will have an effect on the amount of the Company's credit losses. The management has not yet fully assessed the financial impact of these changes as of date.

- *PFRS 15, Revenue from Contracts with Customers* replaces PAS 11 *Construction Contracts*, PAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes* IFRIC 18, *Transfer of Assets from Customers* and SIC-31, *Revenue - Barter Transactions Involving Advertising Services*. The new standard introduces a new revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) a company transfers control of goods or services to a customer at the amount to which the company expects to be entitled. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the company's performance, or at a point in time, when control of the goods or services is transferred to the customer. The standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other PFRS. It also does not apply if two companies in the same line of business exchange non-monetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another PFRS, then the guidance on separation and measurement contained in the other PFRS takes precedence.

The new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

The Company has an ongoing assessment of the application of PFRS 15 on the Company's financial statements.

- *Philippine Interpretation IFRIC-22 Foreign Currency Transactions and Advance Consideration*. The interpretation clarifies that the transaction date to be used for translation for foreign currency transactions involving an advance payment or receipt is the date on which the entity initially recognizes the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. The interpretation applies when an entity pays or receives consideration in a foreign currency and recognizes a non-monetary asset or liability before recognizing the related item.

The interpretation is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

The Company has an ongoing assessment of the application of IFRIC 22 on the Company's financial statements.

*Effective January 1, 2019*

- *PFRS 16, Leases* supersedes *PAS 17 Leases* and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements. Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were introduced.

PFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply PFRS 15 *Revenue from Contracts with Customers* at or before the date of initial application of PFRS 16.

Future adoption of the standards will result in the recognition of the right-of-use of asset, lease liability and additional disclosures. Management is still evaluating the financial impact of the new standard on the Company's financial statements as of the reporting period.

- *Philippine Interpretation IFRIC-23 Uncertainty over Income Tax Treatments* clarifies how to apply the recognition and measurement requirements in *PAS 12, Income Taxes* when there is uncertainty over income tax treatments. Under the interpretation, whether the amounts recorded in the financial statements will differ to that in the tax return, and whether the uncertainty is disclosed or reflected in the measurement, depends on whether it is probable that the tax authority will accept the Company's chosen tax treatment. If it is not probable that the tax authority will accept the Company's chosen tax treatment, the uncertainty is reflected using the measure that provides the better prediction of the resolution of the uncertainty - either the most likely amount or the expected value. The interpretation also requires the reassessment of judgements and estimates applied if facts and circumstances change - e.g., as a result of examination or action by tax authorities, following changes in tax rules or when a tax authority's right to challenge a treatment expires.

The interpretation is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted.

The following amendments to standards are not expected to have impact on the Company's financial statements:

- Transfers of Investment Property (Amendments to PAS 40, *Investment Property*);
- Classification and Measurement of Share-based Payment Transactions (Amendments to PFRS 2, *Share-based Payment*);
- Applying PFRS 9 with PFRS 4, *Insurance Contracts* (Amendments to PFRS 4);
- Annual Improvements to PFRS 2014 - 2016 Cycle:
  - Amendment to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards* - Deletion of short-term exemptions for first-time adopters; and
  - Amendment to PAS 28, *Investments in Associates and Joint Ventures* - Measuring an associate or joint venture at fair value;
- Prepayment Features with Negative Compensation (Amendments to PFRS 9); and
- Long-term Interests in Associates and Joint Ventures (Amendments to PAS 28).

#### Financial Instruments

##### *Date of Recognition*

The Company recognizes a financial asset or a financial liability in the statements of financial position when it becomes a party to the contractual provisions of the instrument. Purchases and sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

##### *Initial Recognition and Classification of Financial Instruments*

Financial instruments are recognized initially at fair value. The initial measurement of financial instruments, except for those classified as financial assets at fair value through profit or loss (FVPL), includes transaction costs.

On initial recognition, the Company classifies its financial assets in the following categories: financial assets at FVPL, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. Financial liabilities on the other hand, are classified into the following categories: financial liabilities at FVPL and other financial liabilities. Management determines the classification of its financial assets and financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at each reporting date.

Financial instruments are classified as liability 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 reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

As at December 31, 2017 and 2016, the Company's financial assets and financial liabilities consist of cash and cash equivalents, loans and receivables, and other financial liabilities.

#### *'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 from observable 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 the recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the 'Day 1' difference amount.

#### *Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivables. After initial measurement, loans and receivables are subsequently carried at cost or amortized cost using the effective interest method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process. Loans and receivables are classified as current assets if maturity is within 12 months from the balance sheet date or the normal operating cycle, whichever is longer. Otherwise, these are classified as noncurrent assets.

As at December 31, 2017 and 2016, the Company's loans and receivables include cash and cash equivalents, trade and other receivable and refundable deposits.

Cash includes cash on hand and in banks which are stated at face value. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of up to three months or less from dates of acquisition and are subject to an insignificant risk of change in value.

#### *Other Financial Liabilities*

This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. These include liabilities arising from operations or borrowings (e.g., payables, accruals). Other financial liabilities are initially recognized at fair value, plus directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the amortization process. Financial liabilities are classified as current, except for maturities greater than 12 months after the reporting date. These are classified as noncurrent liabilities.

As at December 31, 2017 and 2016, the Company's other financial liabilities include trade and other payables (excluding statutory obligations), loans payable, dividends payable and advances from Parent Company.

### Impairment of Financial Assets

The Company assesses, at each reporting date, whether a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the contracted parties or group of contracted parties is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

### *Loans and Receivables*

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant or collectively for financial assets that are not individually significant. If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of loss is measured as a 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 shall be reduced through the use of an allowance account, and the amount of the loss shall be recognized in profit or loss.

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 group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

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 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 amount of the asset does not exceed its amortized cost at the reversal date.

### Derecognition of Financial Assets and Financial Liabilities

#### *Financial Assets*

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

- the rights to receive cash flows from the asset have expired;
- 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 rewards of the asset; or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.



Where the Company has transferred its right to receive cash flows from an asset or has entered into a "pass-through" arrangement, and has neither transferred nor retained substantially all the risks and rewards 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 is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

#### *Financial Liabilities*

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired.

Where 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 Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the statements 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. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statements of financial position.

#### Fair Value Measurement

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 measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to the Company.

The fair value of an asset or a liability is measured using the assumptions that the market participants would use when pricing the asset or liability, assuming that the market participants act in their economic best interest.

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 prices (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Inputs other than quoted prices included within level 1 that are observable for the assets or liability, either directly or indirectly
- Level 3 - Inputs for the asset or liability that are not based on observable market data.

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 reassessing 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.

As at December 31, 2017 and 2016, no financial asset or liability was recognized at fair value. The Company has no other assets or liabilities with recurring and non-recurring fair value measurements.

#### Inventories

Inventories, which consist of wines and spirits, are valued at the lower of cost and net realizable value (NRV). Cost is comprised of purchase price, expenditure incurred in acquiring the inventories and other costs incurred in bringing them to their present location and condition. Cost is determined using the first-in, first-out method.

NRV represents the estimated selling price less costs to be incurred in marketing, selling and distribution. In determining the NRV, the Company considers any adjustment necessary to write-down inventories to NRV for slow-moving and near expiry products based on physical inspection and management evaluation.

#### Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization and any impairment in value. The initial cost of items of property and equipment consists of its purchase price, including import duties and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to profit or loss in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of the item of property and equipment.

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

	Number of Years
Transportation and delivery equipment	5
Furniture and fixtures	2
Office equipment	2
Leasehold improvements	3 or lease term, whichever is shorter

Depreciation and amortization of an item of property and equipment begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation or amortization ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, and the date the asset is derecognized.

The estimated useful lives and depreciation and amortization method are reviewed periodically to ensure that the periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation is recognized in profit or loss. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and any impairment in value are removed from the accounts and any resulting gain or loss is recognized in profit or loss.

#### Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. The capitalization of borrowing costs: (i) commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred; (ii) is suspended during the extended periods in which active development, improvement and construction of the assets are interrupted; and (iii) ceases when substantially all the activities necessary to prepare the assets are completed. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds.

Other borrowing costs are recognized as expense in the period in which they are incurred.

#### Impairment of Non-financial Assets

The Company assesses, at end of each reporting period, whether there is indication that its non-financial assets which is property and equipment, may be impaired. If any such indication exists and where the carrying amount exceeds the estimated recoverable amount, the assets or the cash generating unit (CGU) are written down to their recoverable amounts. The recoverable amount of the non-financial assets is the greater of fair value less cost to sell and value-in-use. The fair value less cost to sell is the price that would be received to sell an asset in an ordinary transaction between market participants less cost to sell. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs. Impairment losses, if any, are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The increase amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount on a systemic basis over its remaining useful life.

#### Capital Stock

Common stock is classified as equity. The proceeds from the issuance of common stock are presented in equity as capital stock to the extent of the par value of the issued and outstanding shares.

### Retained Earnings

Retained earnings represent the cumulative balance of periodic net income or loss, dividend contributions, correction of prior year errors, effect of changes in accounting policy and other capital adjustments.

### Dividends on Common Stock

Cash dividends on common stock are recognized as liability and deducted from equity when approved by the BOD of the Company. Stock dividends are distribution of earnings in the form of Company shares. When the stock dividends are declared, the amount of stock dividends are treated as transfers from retained earnings to common stock.

Dividends for the year that are approved after the balance sheet date are dealt with as an event after the reporting date.

### 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 revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

#### *Sales of Goods*

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of value-added tax (VAT), returns, discounts, and rebates. Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing involvement with the goods. Transfer of risks and rewards of ownership coincide with the delivery of the products to the customers, under normal credit terms.

#### *Interest Income*

Interest income is recognized as it accrues, taking into account the effective yield on the asset.

### Cost and Expense Recognition

Cost of goods sold is recognized when goods are shipped to the buyer. Expenses are recognized upon utilization of services or at the date they are incurred.

Expenses are also recognized when a decrease in future economic benefit related to a decrease in an asset or an increase in a liability that can be measured reliably has arisen. Expenses are recognized on the basis of a direct association between costs incurred and the earning of specific items of income; on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or immediately when an expenditure produces no future economic benefits or when, and to the extent that future economic benefits do not qualify, or cease to qualify, for recognition as an asset.

### Employee Benefits

#### *Short-term Employee Benefits*

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of the past service provided by the employee and the obligation can be estimated reliably.

#### *Retirement Benefits Liability and Cost*

The Company has an unfunded, non-contributory defined benefits retirement plan covering substantially all permanent, regular, full-time employees. The Company's obligation in respect of the defined benefits is calculated by estimating the amount of the future benefits that employees have earned in the current and prior periods, discounting that amount.

The calculation of defined benefits obligations is performed on a periodic basis by a qualified actuary using the projected unit credit method.

Remeasurements of the retirement benefits liability, which comprise of actuarial gains and losses, are recognized immediately in other comprehensive income. Such remeasurement are also immediately recognized in equity under "Accumulated remeasurements on retirement benefits". The Company determines the interest expense on the retirement benefits liability for the period by applying the discount rate used to measure the defined benefits obligation at the beginning of the annual period to the then retirement benefits liability, taking into account any changes in the retirement benefits liability during the period as a result of benefit payments, if any. Interest expense and other expenses related to defined benefits plans are recognized in profit or loss.

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

#### Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after the inception of 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 an extension is 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 specific asset; or
- (d) there is a substantial change to the asset.

#### Operating Leases - Company as Lessee

Leases where the lessors retain substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in the profit or loss on a straight-line basis over the lease term. Associated costs such as maintenance and insurance are expensed as incurred.

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

## Income Taxes

### *Current Income Tax*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used as basis to compute the amount are those that have been enacted or substantively enacted at the reporting date.

### *Deferred Income Tax*

Deferred income 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 income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences can be utilized.

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

Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

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

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

## Value-added Tax (VAT)

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

- where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of VAT included.

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of "Prepaid expenses and other current assets" or "Trade and other payables" in the statements of financial position.

#### Related Party Transactions and Relationships

Related party relationships exist when the party has the ability to control, directly or indirectly, through one or more intermediaries, or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting entity and its key management personnel, directors or stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely to the legal form. Related parties may be individual or corporate entities.

#### Foreign Currency Transactions and Translation

Transactions in currencies other than Philippine peso are recorded at the rates of exchange prevailing on the dates of the transactions. Outstanding monetary assets and liabilities denominated in foreign currencies are translated using the closing exchange rate at the reporting date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

#### Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of the provision to be reimbursed, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss, net of reimbursement. If the effect of the time value of money is material, provisions are discounted using the current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

#### Contingencies

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

#### Events After the Reporting Date

Post year-end events that provide additional information about the Company's position at the reporting date (adjusting events) are recognized in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

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#### 4. Cash

This account consists of:

	<i>Note</i>	<b>2017</b>	<b>2016</b>
Cash on hand		<b>P201,000</b>	P195,200
Cash in banks	<i>18</i>	<b>24,440,298</b>	90,411,380
Cash equivalents	<i>18</i>	<b>50,000,000</b>	-
		<b>P74,641,298</b>	P90,606,580



Cash in banks earns interest at the respective bank deposit rates. Cash equivalents are money market placements made for varying period up to three (3) months, and earn interest at a money market placement rate of 3.75% in 2017.

Interest income recognized in profit or loss amounted to P821,986 and P143,813 in 2017 and 2016, respectively.

## 5. Trade and Other Receivables

This account consists of:

	<i>Note</i>	2017	2016
Trade:			
Related parties	12a	P238,999,476	P256,516,922
Third parties		69,433,925	31,126,642
Non-trade		29,398,431	4,973,856
Receivable from employees		411,114	18,332
		<b>338,242,946</b>	292,635,752
Less allowance for impairment losses on trade receivables		1,503,922	1,503,922
	18	<b>P336,739,024</b>	P291,131,830

The Company's trade receivables are non-interest-bearing and are generally on a 30 to 90-day credit term.

Non-trade receivables pertain to receivables from suppliers for the reimbursements of expenses made by the Company for brand promotions. These are non-interest-bearing and are generally on a 30-day credit term.

## 6. Inventories

This account consists of:

	<i>Note</i>	2017	2016
At cost			
Spirits		P569,082,470	P708,090,416
Wines		55,484,506	54,952,444
	14	<b>P624,566,976</b>	P763,042,860

Cost of goods sold recognized in profit or loss amounted to P623,615,304 and P728,689,540 in 2017 and 2016, respectively (see Note 14).

## 7. Prepaid Expenses and Other Current Assets

This account consists of:

	2017	2016
Advances to suppliers	P188,500,321	P43,236,546
Prepaid expenses:		
Duties and taxes	53,209,429	498,474
Other import charges	493,118	-
Others	-	250,000
	<b>P242,202,868</b>	<b>P43,985,020</b>

Advances to suppliers pertain to partial down payment made by the Company to suppliers and will be applied against future progress billings.

## 8. Property and Equipment

The movements and balances in this account are as follows:

	Transportation and Delivery Equipment	Furniture and Fixtures	Office Equipment	Leasehold Improvements	Total
<b>Cost</b>					
December 31, 2015	P8,265,843	P712,145	P409,637	P1,794,809	P11,182,434
Additions	928,571	98,214	54,107	-	1,080,892
December 31, 2016	9,194,414	810,359	463,744	1,794,809	12,263,326
Additions	955,894	241,071	96,633	-	1,293,598
Disposal	(1,196,857)	-	-	-	(1,196,857)
<b>December 31, 2017</b>	<b>8,953,451</b>	<b>1,051,430</b>	<b>560,377</b>	<b>1,794,809</b>	<b>12,360,067</b>
<b>Accumulated Depreciation and Amortization</b>					
December 31, 2015	5,166,955	589,900	393,514	1,794,809	7,945,178
Depreciation and amortization	1,049,876	91,153	38,668	-	1,179,697
December 31, 2016	6,216,831	681,053	432,182	1,794,809	9,124,875
Depreciation and amortization	1,234,930	124,470	51,380	-	1,410,780
Disposal	(1,196,857)	-	-	-	(1,196,857)
<b>December 31, 2017</b>	<b>6,254,904</b>	<b>805,523</b>	<b>483,562</b>	<b>1,794,809</b>	<b>9,338,798</b>
<b>Carrying Amounts</b>					
December 31, 2016	P2,977,583	P129,306	P31,562	P -	P3,138,451
<b>December 31, 2017</b>	<b>P2,698,547</b>	<b>P245,907</b>	<b>P76,815</b>	<b>P -</b>	<b>P3,021,269</b>

Depreciation and amortization expense for the years ended December 31, 2017 and 2016 were charged as part of operating expenses.

Fully depreciated property and equipment that are still being used by the Company have a total cost of P1,794,809 as at December 31, 2017 and 2016.

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## 9. Refundable Deposits

This account consists of:

	<i>Note</i>	<b>2017</b>	<b>2016</b>
Security deposits	15	<b>P687,852</b>	P653,950
Container deposits		-	657,000
Others		<b>154,458</b>	119,937
	18	<b>P842,310</b>	P1,430,887

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## 10. Trade and Other Payables

This account consists of:

	<i>Note</i>	<b>2017</b>	<b>2016</b>
Non-trade:	18		
Third parties		<b>P28,599,993</b>	P 9,697,704
Related parties	12	<b>3,339,714</b>	30,272,388
Trade	18	<b>9,231,436</b>	3,238,979
Accrued expenses	12c, 18	<b>7,350,043</b>	180,180
Output VAT - net		<b>4,721,990</b>	13,496,826
Statutory obligations		<b>764,925</b>	4,910,759
Others	18	<b>506,482</b>	36,590
		<b>P54,514,583</b>	P61,833,426

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Trade payables are non-interest-bearing and are generally on a 30 to 60-day payment term.

Non-trade payables are amounts owed to non-trade suppliers such as manpower agencies, freight companies and other non-trade transactions. These are non-interest-bearing and are generally on a 30-day payment term.

Accrued expenses consist mainly of accruals for utilities, rent, interest and other operating charges.

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## 11. Loans Payable

This account pertains to unsecured, peso-denominated loans from various local banks with maturities of less than one (1) year and bear fixed annual interest of 2.875% in 2017 and were intended to finance the Company's working capital requirements.

In 2016, the Company paid its loan which amounted to P390,000,000 from various local banks with maturities of less than one (1) year which bear fixed annual interest ranging from 2.375% to 2.600%.

Interest expense recognized in profit or loss relating to these loans amounted to P555,674 and P813,076 in 2017 and 2016, respectively.

## 12. Related Party Transactions

Transactions and account balances with related parties as at and for the years ended December 31 are as follows:

Category	Year	Note	Transactions During the Year	Outstanding Balance			Terms	Conditions
				Trade Receivables	Advances from Parent Company	Nontrade Payable		
<b>Parent Company</b>								
• Advances	2017	12c	P -	P -	P20,000,000	P -	2 years from the time of availment	Unsecured
	2016	12c	-	-	50,000,000	-		
• Interest	2017	11, 12c	150,500	-	-	-	Fixed annual interest rate of 1.8% on the outstanding balance	Unsecured
	2016	11, 12c	4,469,500	-	-	-		
• Management fee	2016	12d	30,000,000	-	-	30,000,000	Due and demandable	Unsecured
<b>Entities under Common Control</b>								
• Sale of goods	2017	6, 12a	493,533,242	238,999,476	-	-	30 days credit term; non-interest bearing	Unsecured; no impairment
	2016	6, 12a	587,280,749	256,516,922	-	-		
• Rent expense	2017	12b	5,171,636	-	-	-	Payable monthly	
	2016	12b	900,000	-	-	91,250		
• Advances	2017	10, 13e	3,339,714	-	-	-		
	2016	10, 13e	181,138	-	-	-		
	2017			P238,999,476	P20,000,000	P3,339,714		
	2016			P256,516,992	P50,000,000	P30,272,388		

- In the normal course of business, the Company distributes wines and liquors to entities under common control.
- The Company entered into lease agreements with an entity under common control for its office space and warehouse (see Note 16).
- The Company received cash advances from its Parent Company in a form of promissory notes. These advances earn fixed annual interest rate of 1.8% with maturities of two (2) years.
- The Company pays management fee to its Parent Company for the management consultancy and financial services provided by the Parent Company.
- Cash advances extended from entities under common control for working capital requirements.
- There is no key management compensation since the key management roles are functionally domiciled under CosCo.

Amounts owed by and owed to related parties are to be settled in cash.

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### 13. Equity

#### Capital Stock

The movements and balances of this account as at December 31, 2017 and 2016 are follows:

	2017		2016	
	Number of Shares	Amount	Number of Shares	Amount
Authorized P100 par value	7,500,000	P750,000,000	3,500,000	P350,000,000
<b>Issued and outstanding</b>				
Balance at beginning of year	3,500,000	P350,000,000	2,100,000	P350,000,000
Stock issuances	4,000,000	400,000,000	-	-
<b>Balance at end of year</b>	<b>7,500,000</b>	<b>P750,000,000</b>	<b>2,100,000</b>	<b>P350,000,000</b>

Ordinary shares carry one vote per share and a right to dividends.

On December 8, 2016, the Company's BOD approved the increase in its authorized capital stock from P350,000,000 divided into 3,500,000 shares of common stock to P750,000,000 divided into 7,500,000 shares of common stock, both at P100 par value to accommodate the stock dividends declared as discussed below.

On July 5, 2017, the SEC approved the Company's increase in authorized capital stock. Upon approval of the increase in authorized capital stock, the stock dividends amounting to P540,000,000 were applied against the increase in authorized capital stock and the related shares were issued.

#### Declaration of Dividends

##### *Cash Dividends*

On November 28, 2017, the Company's BOD approved the declaration of cash dividends of P6.67 per share or an aggregate amount of P50,000,000, payable to stockholders of record as of the same date.

##### *Stock Dividends*

On December 8, 2016, the Company's BOD approved the declaration of stock dividends P190.48 per share or an aggregate amount of P400,000,000, distributable to stockholders of record as of the same date. Accordingly, the stock dividends declared have been presented as stock dividends distributable in the equity section of the 2016 statement of financial position and statement of changes in equity.

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### 14. Cost of Goods Sold

This account consists of:

	Note	2017	2016
Inventory at beginning of year		P763,042,860	P1,074,356,336
Add: Net purchases		485,139,420	417,376,064
Total goods available for sale		1,248,182,280	1,491,732,400
Less: Inventory at end of year	7	624,566,976	763,042,860
		P623,615,304	P728,689,540

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## 15. Operating Lease Agreements

### Company as Lessee

- a. The Company entered into a lease agreement with an entity under common control for office space. The term of the lease is for a period of three (3) years from January 1, 2016 to December 31, 2018, renewable by mutual agreements of both parties. The lease has an annual escalation rate of 5%.
- b. The Company entered into a lease agreement with an entity under common control for a warehouse. The term of the lease is for a period of five (5) years from January 1, 2016 to December 31, 2020. The lease has an annual escalation rate of 5%.
- c. The Company entered into a lease agreement with a third party for a warehouse with a lease term of three (3) years commencing on July 1, 2015 to June 30, 2017. The lease agreement was renewed for another three (3) years from July 1, 2017 to June 30, 2020.

The lease agreements provides for, among others, security deposits amounting to P687,852 and P653,950 as at December 31, 2017 and 2016, respectively, which are shown under "Refundable deposits" in the statements of financial position (see Note 9).

Total rent expense on the above-mentioned lease agreements recognized in profit or loss amounted to P5,532,900 and P921,436 in 2017 and 2016, respectively.

Future minimum lease payments under non-cancellable operating leases as at December 31 are as follows:

	2017	2016
Within one year	P3,317,307	P3,218,843
One year but not more than five years	6,984,953	7,789,238
	<b>P10,302,260</b>	<b>P11,008,081</b>

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## 16. Retirement Benefits

The Company has an unfunded, non-contributory, defined benefits retirement plan covering all of its regular, full-time employees. Costs are determined in accordance with the actuarial studies made for the plan. Under the plan, the employees are entitled to retirement benefits equivalent to an amount computed based on Republic Act No. 7641, *Retirement Pay Law*, equivalent to one-half month's salary for every year of service, with six months or more of service considered as one year.

Costs are determined in accordance with the actuarial studies made for the plan. Annual cost is determined using the projected unit credit method. The Company's latest actuarial valuation date is December 31, 2016.

The succeeding tables summarize the components of retirement benefits cost under a defined benefits retirement plan recognized in profit or loss and the amount of retirement benefits liability recognized in the statements of financial position.

	2017	2016
<b>Balance at beginning of year</b>	<b>P1,158,421</b>	<b>P -</b>
<b>Recognized in profit or loss</b>		
Interest cost	62,323	48,230
Current service cost	270,697	270,697
Past service cost	-	986,301
	<b>333,020</b>	<b>1,305,228</b>
<b>Recognized in other comprehensive income</b>		
Actuarial gain arising from:		
Financial assumptions	-	(106,915)
Experience adjustments	-	(39,892)
	-	(146,807)
<b>Balance at end of year</b>	<b>P1,491,441</b>	<b>P1,158,421</b>

The retirement benefits costs is recognized as part of "Salaries and other employee benefits" under Operating Expenses in the statements of comprehensive income.

The plan exposes the Company to actuarial risks such as interest rate risk, longevity risk and salary risk as follows:

*Interest Risk*

The present value of the defined benefits obligation is calculated using a discount rate determined by reference to market yields to government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation.

*Longevity and Salary Risks*

The present value of the defined obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

The principal actuarial assumptions used to determine retirement benefits in 2017 and 2016 are as follows:

Discount rate	5.38%
Future salary increases	3.00%

Assumptions for mortality and disability rates are based on published statistics and mortality and disability tables.

The weighted average duration of defined benefits obligation is 18 years as at December 31, 2017 and 2016.



As at December 31, the reasonably possible changes to one of the relevant actuarial assumptions, while holding all other assumptions constant, would have affected the defined benefits liability by the amounts below:

	2017		2016	
	Defined Benefit Liability		Defined Benefit Liability	
	1 Percent Increase	1 Percent Decrease	1 Percent Increase	1 Percent Decrease
Discount rate	(P95,154)	P65,325	(P185,263)	P231,575
Salary increase rate	59,658	(29,829)	221,618	(181,251)

Although the analysis does not take into account the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumption shown.

It should be noted that in the event a benefit claim arises under that plan, the benefit shall be due and payable from the Company.

#### *Funding Arrangements*

The plan is unfunded and non-contributory. Benefit claims under the defined benefits retirement obligation are paid directly by the Company when they become due.

#### *Asset-Liability Matching (ALM)*

The Company does not perform any ALM study. The Company has no plan assets to match against liabilities under the retirement obligation.

Maturity analysis of the benefit payments is as follows:

	December 31, 2016				
	Carrying Amount	Contractual Cash Flows	Within 1 Year	Within 1-5 Years	More than 5 Years
Retirement benefits liability	P1,158,421	P879,217	P -	P -	P879,217

## 17. Income Taxes

The components of provision for income tax are shown below:

	2017	2016
Current	P18,636,618	P39,428,024
Deferred	(288,407)	(50,364)
	P18,348,211	P39,377,660

The reconciliation of the provision for income tax computed at the statutory income tax rate and the provision for income tax shown in profit or loss for the years ended December 31 is as follows:

	2017	2016
Income before income tax	P58,101,980	P130,436,258
Provision for income tax at the statutory income tax rate of 30%	P17,430,594	P39,130,877
Additions to (reductions from) income taxes resulting to the tax effects of:		
Non-deductible expenses	1,164,213	289,927
Interest income subjected to final tax	(246,596)	(43,144)
Provision for income tax	P18,348,211	P39,377,660

The components of the Company's net deferred income tax assets are as follows:

	2017	2016
Allowance for impairment losses on trade receivables	P451,177	P451,177
Retirement benefits liability	447,432	347,526
Accrued rent expense	108,379	-
Unrealized foreign exchange gain - net	(8,205)	(88,327)
	P998,783	P710,376

The movements of net deferred income tax assets are accounted for as follows:

	2017	2016
Amount charged to profit or loss	P288,407	(P50,364)
Amount charged to OCI relating to remeasurement on defined benefits plan	-	44,042
Increase (decrease) in net deferred income tax assets	P288,407	(P6,322)

## 18. Financial Risk and Capital Management, Objectives and Policies

### Objectives and Policies

The BOD has overall responsibility for the establishment and oversight of the Company's risk management framework. The BOD has delegated to the management the responsibility of developing and monitoring the Company's risk management policies.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The BOD oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

The Company has exposure to the following risks from its use of financial instruments:

- Credit Risk
- Liquidity Risk
- Market Risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risks, and the Company's management of capital.

#### Risk Management Framework

The Company's overall risk management program seeks to minimize potential adverse effects on the financial performance of the Company. The policies for managing specific risks are summarized below:

#### Credit Risk

Credit risk represents the risk of loss the Company would incur if credit customers and counterparties fail to perform their contractual obligations. The Company's credit risk arises from the Company's use of its financial assets. Credit risk management involves entering into financial transactions only with counterparties with acceptable credit rating.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk as at December 31 is as follows:

	Note	2017	2016
Cash in banks and cash equivalents	4	P74,440,298	P90,411,380
Trade and other receivables - net	5	336,739,024	291,131,830
Refundable deposits	9	842,310	1,430,887
		<b>P412,021,632</b>	<b>P382,974,097</b>

As at December 31, 2017 and 2016, the aging per class of financial assets is as follows:

	December 31, 2017					Total
	Neither Past Due nor Impaired	Past Due		Past Due and Impaired		
		1 to 30 Days	31 to 120 Days			
Cash in banks and cash equivalents	P74,440,298	P -	P -	P -		P74,440,298
Trade and other receivables	205,627,540	79,683,036	49,924,526	1,503,922		336,739,024
Refundable deposits	842,310	-	-	-		842,310
	<b>P280,910,148</b>	<b>P79,683,036</b>	<b>P49,924,526</b>	<b>P1,503,922</b>		<b>P412,021,632</b>

	December 31, 2016					Total
	Neither Past Due nor Impaired	Past Due		Past Due and Impaired		
		1 to 30 Days	31 to 120 Days			
Cash in banks	P90,411,380	P -	P -	P -		P90,411,380
Trade and other receivables	277,849,439	2,961,103	8,817,366	1,503,922		291,131,830
Refundable deposits	1,430,887	-	-	-		1,430,887
	<b>P369,691,706</b>	<b>P2,961,103</b>	<b>P8,817,366</b>	<b>P1,503,922</b>		<b>P382,974,097</b>

Based on the historical default rates, the Company believes that no impairment allowance is necessary in respect of trade receivables past due but not impaired because such accounts relate to customers that have good payment records with the Company. On the other hand, the Company believes that no impairment loss is necessary in respect of other receivables since they are neither past due nor impaired.

The Company's policy is to enter into transactions with a diversity of credit worthy parties to mitigate any significant concentration of credit risk. There is no significant concentration of credit risk within the Company.

As at December 31, 2017 and 2016, the Company does not expect any counterparty, other than trade customers, to fail to meet its obligations, thus, related risk is deemed to be insignificant.

*Credit Risk Concentration.* The Company's exposure to credit risk arises from default of counterparty. Generally, the maximum credit risk exposure of receivables is its carrying amount without considering collaterals or credit enhancements, if any. The Company has no significant concentration of credit risk since the Company deals with a large number of customers. The Company does not execute any credit guarantee in favor of any counterparty.

*Credit Quality.* In monitoring and controlling credit extended to counterparty, the Company adopts a comprehensive credit rating system based on financial and non-financial assessments of its customers. Financial factors being considered comprised of the financial standing of the customer while the nonfinancial aspects include but are not limited to the assessment of the customer's nature of business, management profile, industry background, payment habit and both present and potential business dealings with the Company.

The credit quality of the Company's financial assets as at December 31, 2017 and 2016 are as follows:

	December 31, 2017			Total
	High Grade	Standard Grade	Substandard Grade	
Cash in banks and cash equivalents	P74,440,298	P -	P -	P74,440,298
Trade and other receivables - net	-	205,627,539	131,111,485	336,739,024
Refundable deposits	842,310	-	-	842,310
<b>Total</b>	<b>P75,282,608</b>	<b>P205,627,539</b>	<b>P131,111,485</b>	<b>P412,021,632</b>

	December 31, 2016			Total
	High Grade	Standard Grade	Substandard Grade	
Cash in banks	P90,411,380	P -	P -	P90,411,380
Trade and other receivables - net	-	277,849,439	13,282,391	291,131,830
Refundable deposits	1,430,887	-	-	1,430,887
<b>Total</b>	<b>P91,842,267</b>	<b>P277,849,439</b>	<b>P13,282,391</b>	<b>P382,927,097</b>

*High grade* receivables pertain to those receivables from clients or customers that consistently pay before the maturity date. *Standard grade* receivable includes those that are collected on their due dates event 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. Past due receivables and advances include those that are either past due but still collectible or determined not to be individually impaired.

- a. Cash in banks and cash equivalents - the credit risk of this financial instrument is considered negligible since the counterparties are reputable entities with high quality external credit ratings based on the nature of the counterparty and the Company's internal rating system.
- b. Receivables - the credit quality is standard grade for these financial instruments with satisfactory financial capability and credit standing but with some elements of risks where certain measure of control is necessary to mitigate the risk of default. The credit quality for receivables with provision is substandard grade since constant reminder follow-ups are performed to collect accounts from customers. Adequate allowance for impairment losses on receivables are made for potential bad debts at each reporting date (Note 5).
- c. Refundable deposits - the credit quality is assessed to be as high grade since these security deposits are refundable at the end of the lease term which is expected from a reputable service provider.

#### Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk by maintaining a balance between continuity of funding and flexibility in operation. Treasury controls and procedures are in place to ensure that sufficient cash is maintained to cover daily operational and working capital requirements, as well as capital expenditures and debt service payments. Management closely monitors the Company's future and contingent obligations and sets up required cash reserves as necessary in accordance with internal requirements.

The following are contractual maturities of financial liabilities:

	As at December 31, 2017			
	Carrying Amount	Contractual Cash Flows	1 Year or Less	More than 1 Year
Financial Liabilities				
Trade and other payables*	P49,027,668	P49,027,668	P49,027,668	P -
Loans payable	100,000,000	100,239,583	100,239,583	-
Advances from Parent Company	20,000,000	20,365,000	20,365,000	-
Dividends payable	50,000,000	50,000,000	50,000,000	-
<b>Total</b>	<b>P219,027,3668</b>	<b>P219,632,251</b>	<b>P219,632,251</b>	<b>P -</b>

\*Excluding statutory obligations and Output VAT.

	As at December 31, 2016			
	Carrying Amount	Contractual Cash Flows	1 Year or Less	More than 1 Year
Financial Liabilities				
Trade and other payables*	P43,425,841	P43,425,841	P43,425,841	P -
Advances from Parent Company	50,000,000	50,912,500	50,912,500	-
<b>Total</b>	<b>P93,425,841</b>	<b>P94,338,341</b>	<b>P94,338,341</b>	<b>P -</b>

\*Excluding statutory obligations and Output VAT.

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

#### Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and other market prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. The Company is subject to various risks, including foreign currency risk and interest rate risk.

#### *Interest Rate Risk*

The Company's interest rate risk management policy centers on reducing the Company's exposure to changes in interest rates. Exposure to changes in market interest rates relate primarily to the Company's cash in banks, advances from Parent Company and loans payable.

As at December 31, 2017 and 2016, the interest rate profile of the Company's interest-bearing financial instruments is as follows:

	Note	2017	2016
<b>Fixed Rate Financial Instruments</b>			
Financial asset:			
Cash in banks and cash equivalents	4	P74,440,298	P90,411,380
Financial liabilities:			
Advances from Parent Company	12	(20,000,000)	(50,000,000)
Loans payable	11	(100,000,000)	-
		(120,000,000)	(50,000,000)
		P45,559,702	P40,411,380

The Company does not account for any fixed rate financial assets and financial liabilities at FVPL. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

#### *Foreign Currency Risk*

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's exposure to foreign currency risk relates primarily to the Company's foreign currency-denominated monetary assets and liabilities. The currencies in which these transactions are primarily denominated are United States dollar (USD), Singaporean dollar (SGD), British pound (GBP) and Euro (EUR).

The following table shows the Company's foreign currency-denominated monetary assets and liabilities and their Philippine peso (PHP) equivalents as at December 31:

	December 31, 2017				PHP Equivalent
	USD	SGD	GBP	EUR	
<b>Foreign Currency - Denominated Monetary Assets</b>					
Cash in banks	22,896	-	-	-	1,143,207
Trade receivables	-	-	-	5,872	350,048
	22,896	-	-	-	1,493,255
<b>Foreign Currency - Denominated Monetary Liabilities</b>					
Trade payables	31,840	244	1,273	-	1,684,317
<b>Net Foreign Currency-Denominated Monetary Assets (Liabilities)</b>					
	(8,944)	(244)	1,273	5,872	(191,062)



	December 31, 2016			PHP Equivalent
	USD	SGD	EUR	
<b>Foreign Currency - Denominated Monetary Assets</b>				
Cash	23,482	-	-	1,169,697
Trade receivables	198,180	-	-	9,871,952
	221,662	-	-	11,041,649
<b>Foreign Currency - Denominated Monetary Liabilities</b>				
Trade payable	-	858	217,616	11,310,776
<b>Net Foreign Currency - Denominated Monetary Assets (Liabilities)</b>	221,662	(858)	(217,616)	(269,127)

In translating the foreign currency-denominated monetary assets and liabilities into Philippine peso amounts, the significant exchange rates applied are as follows:

	2017	2016
USD	49.93	49.81
SGD	37.32	34.35
GBP	67.12	60.87
EUR	59.61	51.84

The following table demonstrates sensitivity of cash flows due to changes in foreign exchange rates with all variables held constant.

	December 31, 2017	
	Percentage Increase in Foreign Exchange Rates	Effect in Income before Income Tax
USD	5%	P15,630 decrease
SGD	7%	1,032 decrease
GBP	10%	5,981 decrease
EUR	9%	22,053 increase

	December 31, 2016	
	Percentage Increase in Foreign Exchange Rates	Effect in Income before Income Tax
USD	1%	77,292 increase
SGD	5%	1,032 decrease
EUR	3%	236,907 decrease

Changes in foreign exchange rates are based on the average of the banks' forecasted closing exchange rates during the first quarter of the following calendar year. A movement in the opposite direction would increase/decrease income before income tax by the same amount, on the basis that all other variables remains constant.

#### Capital Risk Management

The Company's objectives, when managing capital, are to increase the value of stockholders' investment and maintain high growth by applying free cash flows to selective investments that would further the Company's worth. The Company sets strategies with the objective of establishing a versatile and resourceful financial management and capital structure.

The Company defines capital as paid-in capital stock and retained earnings.

There were no changes in the Company's approach to capital management during the year.



The Chief Financial Officer has the overall responsibility for monitoring of capital in proportion to risk. Profiles for capital ratios are set in the light of changes in the Company's external environment and the risks underlying the Company's business operations and industry.

The Company is not subject to externally-imposed capital requirements.

## 19. Fair Values of Financial Instruments

### *Cash and Cash Equivalents, Trade and Other Receivables, Trade and Other Payables and Dividends Payable*

The carrying amounts of the Company's cash and cash equivalents, trade and other receivables, trade and other payables (excluding statutory obligations and Output VAT), dividends payable and loans payable approximate their fair values due to the short-term maturities of these financial instruments.

### *Refundable Deposits*

In the case of security deposits the difference between the carrying amounts and fair values is considered immaterial by management.

### *Loans and Advances from Parent Company*

The estimated fair value of loans and advances from Parent Company is based on the present value of expected future cash flows using the applicable market rates for similar types of loans at reporting date. The difference between the carrying amount and fair value of loans and advances from Parent Company is considered immaterial by management.

## 20. Reconciliation Between the Opening and Closing Balances for Liabilities Arising from Financing Activities

The reconciliation of movements of liabilities to cash flows arising from financing activities in 2017 are as follow:

	Loans Payable	Accrued Interest	Advances from Parent Company	Dividends Payable	Total
	P -	P -	P60,000,000	P -	P50,000,000
<b>Balance at beginning of year</b>					
<b>Cash flow from financing activities</b>					
Proceeds from availment of loans	100,000,000	-	-	-	100,000,000
Payment of principal	-	-	(30,000,000)	-	(30,000,000)
Interest expense	-	706,174	-	-	706,174
Interest paid	-	(629,667)	-	-	(629,667)
Dividends declared	-	-	-	50,000,000	50,000,000
	<b>100,000,000</b>	<b>76,507</b>	<b>(30,000,000)</b>	<b>50,000,000</b>	<b>120,076,507</b>
<b>Balance at end of year</b>	<b>P100,000,000</b>	<b>P76,507</b>	<b>P20,000,000</b>	<b>P50,000,000</b>	<b>P170,076,507</b>

**21. Supplementary Information Required by the Bureau of Internal Revenue (BIR)  
Based on Revenue Regulations No.15-2010**

In addition to the disclosures mandated under PFRS, and such other standards and/or conventions as may be adopted, companies are required by the BIR to provide in the notes to the financial statements, certain supplementary information for the taxable year. The amounts relating to such supplementary information may not necessarily be the same with those amounts disclosed in the financial statements which were prepared in accordance with PFRS. The following are the tax supplementary information required for the taxable year ended December 31, 2017:

**A. VAT**

Output VAT	<b>P97,093,784</b>
<b>Basis of the Output VAT:</b>	
Vatable sales	<b>P808,936,295</b>
Zero-rated sales	<b>33,269,865</b>
Vatable receipts	<b>178,568</b>
<b>Input VAT</b>	
Beginning of the year	<b>P -</b>
<b>Current year's domestic purchases:</b>	
a. Goods other than capital goods	<b>6,752,125</b>
b. Services lodged under other accounts	<b>7,699,413</b>
VAT on importations	<b>54,504,904</b>
Claims for tax credit/refund and other adjustments	<b>(68,956,442)</b>
Balance at the end of the year	<b>P -</b>

**B. Customs Duties and Tariff Fees**

Landed cost of imports	<b>P454,207,533</b>
Customs duties paid or accrued	<b>29,829,632</b>
	<b>P484,037,165</b>

**C. Excise Taxes**

Imported excisable items	
a. Spirits	<b>P104,664,086</b>
b. Wines	<b>9,614,791</b>
	<b>P114,278,877</b>

**D. Documentary Stamp Tax**

On issuance of shares of stocks	<b>P2,000,000</b>
On loan instruments	<b>345,863</b>
On others	<b>367,720</b>
	<b>P2,713,583</b>

**E. Withholding Taxes**

Tax on compensation and benefits	P1,441,110
Creditable withholding taxes	1,653,178
	<b>P3,094,288</b>

**F. All Other Taxes (Local and National)**

<i>Other taxes paid during the year recognized under "Taxes and licenses" account under Operating Expenses</i>	
License and permit fees	P3,258,366
Others	901,037
	<b>P4,159,403</b>

**G. Tax Cases**

As at December 31, 2017, the Company is not involved in any tax cases nor has received deficiency tax assessments from the BIR.

Information on tariff fees, paid or accrual, are not applicable since the Company did not enter into transaction which will result to payment or accrual of such taxes.



ANNEX D"



REPUBLIC OF THE PHILIPPINES  
SECURITIES AND EXCHANGE COMMISSION

SEC Building, EDSA, Greenhills  
City of Mandaluyong, Metro Manila

COMPANY REG. NO. A199600988

**CERTIFICATE OF FILING  
OF**

**AMENDED ARTICLES OF INCORPORATION**

KNOW ALL PERSONS BY THESE PRESENTS:

This is to certify that the amended articles of incorporation of the

**PREMIER WINE AND SPIRITS, INC.**

(Amending Article II thereof)

copy annexed, adopted on December 19, 2014 by majority vote of the Board of Directors and by the vote of the stockholders owning or representing at least two-thirds of the entire outstanding capital stock, and certified under oath by the Corporate Secretary and a majority of the Board of Directors of the corporation was approved by the Commission on this date pursuant to the provision of Section 16 of the Corporation Code of the Philippines, Batas Pambansa Bilang 68, approved on May 1, 1980, and copies thereof are filed with the Commission.

Unless this corporation obtains or already has obtained the appropriate Secondary License from this Commission, this Certificate does not authorize it to undertake business activities requiring a Secondary License from this Commission such as, but not limited to acting as broker or dealer in securities, government securities eligible dealer (GSED), investment adviser of an investment company, close-end or open-end investment company, investment house, transfer agent, commodity/financial futures exchange/broker/merchant, financing company and time shares/club shares/membership certificates issuers or selling agents thereof. Neither does this Certificate constitute as permit to undertake activities for which other government agencies require a license or permit.

IN WITNESS WHEREOF, I have set my hand and caused the seal of this Commission to be affixed to this Certificate at Mandaluyong City, Metro Manila, Philippines, this 9th day of January, Twenty-Fifteen.

**FERDINAND B SALES**

Director

Company Registration and Monitoring Department





# COVER SHEET

## COMPANY REGISTRATION AND MONITORING DEPARTMENT

Nature of Application <b>AAI</b>	SEC Registration Number <b>A 1 9 9 6 0 0 9 8 8</b>
Former Company Name <b>P R E M I E R W I N E A N D S P I R I T S , I N C .</b>	

AMENDED TO  
New Company Name


Principal Office (No./Street/Barangay/City/Town) Province

<b>G A T E 1 ,</b>	<b>T A B A C A L E R A C O M P O U N D ,</b>	
<b>9 0 0</b>	<b>R O M U A L D E Z S T . ,</b>	<b>P A C O , M A N I L A</b>

**COMPANY INFORMATION**

Company's Email Address	Company's Telephone Number/s <b>(02) 524-2117/524-2165</b>	Company's Facsimile Number/s
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**CONTACT PERSON INFORMATION**

Name of Contact Person <b>Candy H. Dacanay-Datuon</b>	Email Address <b>candy.dacanay@gmail.com</b>	Telephone Number/s <b>(02) 523-3055</b>	Facsimile Number/s <b>(02) 523-3055</b>
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Contact Person's Address

<b>No. 900 Romualdez St., Paco, Manila</b>
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To be accomplished by CRMD Personnel

Assigned Processor	Date	Signature

Document I.D.

Received by Corporate Filing and Records Division (CFRD)

Forwarded to:

Corporate and Partnership Registration Division		
Green Lane Unit		
Financial Analysis and Audit Division		
Licensing Unit		
Compliance and Monitoring Division		



4. To aid in any manner any corporation, association, or trust estate, domestic or foreign, or any firm of individual, any shares of stock in which or any bonds, debentures, notes, securities, evidences of indebtedness, contracts, or obligations of which are held by or for this corporation, directly or indirectly or through other corporations or otherwise.
5. To enter into any lawful arrangement for sharing profits, union of interest, unitization or farmout agreement, reciprocal concession or cooperation, with any corporation, association, partnership, syndicate, entity, person or governmental, municipal or public authority, domestic or foreign, in the carrying on of any business or transaction deemed necessary, convenient or incidental to carrying out any of the purpose of this corporation.
6. To acquire or obtain from any government or authority, national, provincial, municipal, or otherwise, or any corporation, company or partnership or person, such charter, contracts, franchise, privileges, exemption, licenses and concessions as may be conducive to any of the objects of the corporation;
7. To establish and operate one or more branch offices or agencies and to carry on any of all its operations and business without any restrictions as to place or amount including the right to hold, purchase or otherwise acquire, lease, mortgage, pledge and convey or otherwise deal in with real and personal property anywhere in the Philippines.
8. To conduct and transact any and all lawful business and to do or cause to be done any one or more of the acts and things herein set forth as its purpose, within or without the Philippines, and in any and all foreign countries, and to do everything necessary, desirable or incidental to the accomplishment of the purposes or the exercise of any one of more of the powers herein enumerated, or which shall at any time appear conducive to or expedient for the protection or benefit of this corporation.

THIRD: That the place where the principal office of the corporation is to be established is at Gate 1, Tabacalera Compound, No. 900 Romualdez St., Paco, Manila.

(As amended on December 19, 2014 by the Board of Directors and Stockholders representing at least 2/3 of the entire issued and outstanding capital stock of the corporation.)

FOURTH: That the term for which said corporation is to exist is fifty (50) years from and after the date of incorporation.

FIFTH: That the names, nationalities and residences of the incorporators of said corporation are as follows:

<u>Name</u>	<u>Nationality</u>	<u>Residences</u>
EDWARD F. McDONNELL	American	████████████████████ ████████████████████ ████████████████████
EDWARD FRANCIS McDONNELL, JR.	American	████████████████████ ████████████████████ ████████████████████
FLORENTINO M. HERRERA III	Filipino	████████████████████ ████████████████████ ████████████████████
ROBERT COLOMBO	American	████████████████████ ████████████████████ ████████████████████





<u>Name</u>	<u>Amount Paid</u>
ROBERT COLOMBO	100.00
EDWARD F. McDONNELL	100.00
EDWARD FRANCIS McDONNELL, JR.	100.00
FLORENTINO M. HERRERA III	100.00
MA. LOURDES C. ESTEBANLAR	100.00
EFM, INC.	7,424,400.00
COLOMBO MERCHANTS PHILS, INC.	675,000.00
JOSE ESTEBAN III	100.00
JP SANTAMARINA	100.00
ETC HOLDINGS, INC.	5,399,600.00
Total	<u>P13,500,000.00</u>

TENTH: That no issuance or transfer of shares of stock corporation which would reduce the stock ownership of Filipino citizens to less than the percentage of the outstanding capital stock required by law to be owned by Filipino citizens, shall be allowed or permitted to be recorded in the books of the corporation. This restrictions shall be printed or indicated in all certificates of stock to be issued by the corporation.

ELEVENTH: That MA. LOURDES ESTEBANLAR has been elected by the subscribers as Treasurer of the corporation to act as such until her successors is duly elected and shall have qualified in accordance with the by-laws; and that as such Treasurer, she has been authorized to receive for the corporation, and to issue in its name receipts for all, subscriptions paid in by the subscribers.

IN WITNESS WHEREOF, we have hereunto set out hands, this 3<sup>rd</sup> day of June, 1996 at the City of Makati, Philippines.

(Signed)  
EDWARD F. McDONNELL

(Signed)  
ROBERT COLOMBO

(Signed)  
EDWARD FRANCIS McDONNELL, JR.

(Signed)  
JOSE ESTEBAN III

(Signed)  
FLORENTINO M. HERRERA III

Signed in the presences of:

(Signed)

(Signed)

**ACKNOWLEDGEMENT**

Republic of the Philippines)  
City of Makati ) S.S.

BEFORE ME, a Notary Public in and for Makati City, Philippines, this 03 Jun 1996 personally appeared:

<u>Name</u>	<u>Res. Cert. No.</u>	<u>Date &amp; Place Issued</u>
EDWARD G. McDONNELL	PP No. 015277047	Oct. 21, 1994 – Washington, D.C. U.S.A.

EDWARD FRANCIS McDONNELL, JR.	120294103	Feb. 13, 1994 – Honolulu, Hawaii
FLORENTINO M. HERRERA III	14258614	March 3, 1996 – Makati
ROBERT COLOMBO	14246055	Feb. 29, 1996 – Makati
JOSE ESTEBAN III	14780797	Jan. 10, 1996 – Angeles City

all known to me and to me known to be the same persons who executed the foregoing Articles of Incorporation and they acknowledged to me that the same is their free and voluntary act and deed.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my notarial seal on the date and at the place first above-written.

(SIGNED)  
ANGELITO D. BERNARDINO  
NOTARY PUBLIC  
UNTIL DECEMBER 31, 1997  
PTR NO. 0276227-1-10-36-MAKATI CITY  
IBP NO. 407263-1-9-96-RIZAL

Doc. No. 141  
Page No. 30;  
Book No. IV;  
Series of 1996.

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96 JUN 10 P 3: 08

"ANNEX D-1"

BY - LAWS

OF

PREMIER WINE AND SPIRITS, INC.  
Name of Corporation

ARTICLE I

SUBSCRIPTION, ISSUANCE AND TRANSFER OF SHARES

Section 1. Subscriptions - Subscribers to the capital stock of the corporation shall pay to the corporation the subscription value or price of the stock in accordance with the terms and conditions prescribed by the Board of Directors. Unpaid subscriptions shall not earn interest unless determined by the Board of Directors.

Section 2. Certificates - Each stockholder shall be entitled to one or more certificates for such fully paid stock subscription in his name in the books of the corporation. The certificates shall contain the matters required by law and the Articles of Incorporation. They shall be in such form and design as may be determined by the Board of Directors and numbered consecutively. The certificates, which must be issued in consecutive order, shall bear the signature of the President, manually countersigned by the Secretary or Assistant Secretary, and sealed with the corporate seal.

Section 3. Transfer of Shares - Subject to the restrictions, terms and conditions contained in the Articles of Incorporation, shares may be transferred, sold, ceded, assigned or pledged by delivery of the certificates duly indorsed by the stockholder, his attorney-in-fact, or other legally authorized person. The transfer shall be valid and binding on the corporation only upon record thereof in the books of the corporation, cancellation of the

certificate surrendered to the Secretary, and issuance of a new certificate to the transferee.

No shares of stock against which the corporation holds unpaid claim shall be transferable in the books of the corporation.

All certificates surrendered for transfer shall be stamped "Cancelled" on the face thereof, together with the date of cancellation, and attached to the corresponding stub with the certificate book.

Section 4. Lost Certificates — In case any certificate for the capital stock of the corporation is lost, stolen, or destroyed, a new certificate may be issued in lieu thereof in accordance with the procedure prescribed under Section 73 of the Corporation Code.

## ARTICLE II

### MEETINGS OF STOCKHOLDERS

Section 1. Regular Meetings — The regular meetings of stockholders, for the purpose of electing directors and for the transaction of such business as may properly come before the meeting, shall be held at the principal office on 2nd Tuesday of May  
(Date of meeting)  
of each year, if a legal holiday, then on the day following.

Section 2. Special Meeting — The special meetings of stockholders, for any purpose or purposes, may at any time be called by any of the following: (a) Board of Directors, at its own instance, or at the written request of stockholders representing a majority of the outstanding capital stock. b) President.

Section 3. Place of Meeting — Stockholders' meetings, whether regular or special, shall be held in the principal office of the corporation or at any place designated by the Board of Directors in the city or municipality where the principal office of the corporation is located.

Section 4. Notice of Meeting — Notices for regular or special meetings of stockholders may be sent by the Secretary by personal delivery or by mail at least two (2) weeks prior to the date of the meeting to each stockholder of record at his last known post office address or by publication in a newspaper of general circulation. The notice shall state the place, date and hour of the meeting, and the



purpose or purposes for which the meeting is called. In case of special meetings, only matters stated in the notice can be the subject of motions or deliberations at such meeting.

When the meeting of stockholders is adjourned to another time or place, it shall not be necessary to give any notice of the adjourned meeting if the time and place to which the meeting is adjourned are announced at the meeting at which the adjournment is taken. At the reconvened meeting, any business may be transacted that might have been transacted on the original date of the meeting.

Section 5. Quorum \_ Unless otherwise provided by law, in all regular or special meeting of stockholders, a majority of the outstanding capital stock must be present or represented in order to constitute a quorum. If no quorum is constituted, the meeting shall be adjourned until the requisite amount of stock shall be present.

Section 6. Conduct of Meeting \_ Meeting of the Stockholders shall be presided over by the Chairman of the Board, or in his absence, the President, or if none of the foregoing is in office and present and acting, by a chairman to be chosen by the stockholders. The Secretary, shall act as Secretary of every meetings, but if not present, the chairman of the meeting shall appoint a secretary of the meeting. The chairman of the meeting may adjourn the meeting from time to time, without notice other than announced at the meeting.

Section 7. Manner of Voting - At all meetings of stockholders, a stockholders may vote in person or by proxy executed in writing by the stockholders or his duly authorized attorney-in-fact. Unless otherwise provided in the proxy, it shall be valid only for the meeting at which it has been presented to the secretary.

All proxies must be in the hands of the the secretary before the time set for the meeting. Such proxies filed with the Secretary may be revoked by the stockholders either in an instrument in writing duly presented and recorded with the Secretary. prior to a scheduled meeting or by their personal presence at the meeting.

Section 8. Closing of Transfer Books of Fixing of Record Date - For the purpose of determining the stockholders entitled to notice of, or to vote at, any meeting of stockholders or any adjournment thereof or to receive payment of any

dividend, or of making a determination of stockholders for any other proper purpose, the Board of Directors may provide that the stock and transfer books be closed for a stated period, but not to exceed, in any case, twenty (20) days. If the stock and transfer books be closed for the purpose of determining stockholders entitled to notice of, or to vote at, a meeting of stockholders, such books shall be closed for at least ten (10) working days immediately preceeding such meeting. In lieu of closing the stock and transfer books, the Board of Directors may fix in advance a date as the record date shall in no case be more than twenty (20) days prior to the date, on which the particular action requiring such determination of stockholders is to be taken, except in instance where applicable rules and regulations provided otherwise.

### ARTICLE III

#### BOARD OF DIRECTORS

Section 1. Powers of the Board - Unless otherwise provided by law, the corporate powers of the corporation shall be exercised, all business conducted and all property of the corporation controlled and held by the Board of Directors to be elected by and from among the stockholders. Without prejudice to such general powers and such other powers as may be granted by law, the Board of Directors shall have the following express powers:

a) From time to time, to make and change rules and regulations not inconsistent with these by-laws for the management of the corporation's business and affairs;

b) To purchase, receive, take or otherwise acquire in any lawful manner, for and in the name of the corporation, any and all properties, rights, interest or privileges, including securities and bonds of other corporations, as the transaction of the business of the corporation may reasonably or necessarily require, for such consideration and upon such terms and conditions as the Board may deem proper or convenient.

c) To invest the funds of the corporation in another corporation or business or for any other purposes other than those for which the corporation was organized, whenever in the judgment of the board of Directors the interests of the corporation would thereby be promoted, subject to such stockholders' approval as may be required by law;



d) To incur such indebtedness as the Board may deem necessary and, for such purpose, to make and issue evidence of such indebtedness including, without limitation, notes, deeds of trust, instruments, bonds, debentures, or securities, subject to such stockholder approval as may be required by law, and/or pledge, mortgage, or otherwise encumber all or part of the properties and rights of the corporation;

e) To guarantee, for and in behalf of the corporation obligations of other corporations or entities in which it has lawful interest;

f) To make provisions of the discharge of the obligations of the corporation as they mature, including payment for any property, or in stocks, bonds, debentures, or other securities of the corporation lawfully issued for the purpose;

g) To sell, lease, exchange, assign, transfer or otherwise dispose of any property, real or personal, belonging to the corporation whenever in the Board's judgment, the corporation's interest would thereby be promoted;

h) To establish pension, retirement, bonus, profit-sharing, or other types of incentives or compensation plans for the employees, including officers and directors of the corporation and to determine the persons to participate in any such plans and the amount of their respective participations;

i) To prosecute, maintain, defend, compromise or abandon any lawsuit in which the corporation or its officers are either plaintiffs or defendants in connection with the business of the corporation, and likewise, to grant installments for the payments or settlement of whatsoever debts are payment to the corporation;

j) To delegate, from time to time, any of the powers of the Board which may lawfully be delegated in the course of the current business or businesses of the corporation to any standing or special committee or to any officer or agent and to appoint any persons to be agents of the corporation with such powers (including the power to sub-delegate), and upon such terms, as may be deemed fit;

k) To implement these by-laws and to act on any matter not covered by these by-laws, provided such matter does not require the approval or consent of the stockholders under any existing law, rules or regulation.

Section 2. Election and Term - The Board of Directors shall be elected during each regular meeting of stockholders and shall hold office for one (1) year and until their successors are elected and qualified

Section 3. Vacancies - Any vacancy occurring in the Board of Directors other than by removal by the stockholders or by expiration of term, may be filled by the vote of at least a majority of the remaining directors, if still constituting a quorum; otherwise, the vacancy must be filled by the stockholders at a regular or at any special meeting of stockholders called for the purpose. A director so elected to fill a vacancy shall be elected only for the unexpired term of his predecessor in office.

Any directorship to be filled by reason of an increase in the number of directors shall be filled only by an election at a regular or at a special meeting of stockholders duly called for the purpose, or in the same meeting authorizing the increase of directors if so stated in the notice of the meeting.

The vacancy resulting from the removal of a director by the stockholders in the manner provided by law may be filled by election at the same meeting of stockholders without further notice, or at any regular or at any special meeting of stockholders called for the purpose, after giving notice as prescribed in this by-laws.

Section 4. Meetings - Regular meetings of the Board of Directors shall be held once every quarter of the year on such dates and at such times and places as the Chairman of the Board, or in his absence, the President, or upon the request of a majority of the directors and shall be held at such places as may be designated in the notice.

Section 5. Notice - Notice of the regular or special meeting of the Board, specifying the date, time and place of the meeting, shall be communicated by the Secretary to each director personally, or by telephone, telex, telegram, or by written or oral message. A director may waive this requirement, either expressly or impliedly.

Section 6. Quorum - A majority of the number of directors as fixed in the Articles of Incorporation shall constitute a quorum for the transaction of corporate business, and every decision of at least a majority of the directors present at a meeting at which there is a quorum shall be valid as a corporate act, except for the election of officers which shall require the vote of a majority of all the members of the Board.

Section 7. Conduct of the Meetings - Meetings of the Board of Directors shall be presided over by the Chairman of the Board, or in his absence, the President or if none of the foregoing is in office and present and acting, by any other director chosen by the Board. The Secretary, shall act as secretary of every meeting, if not present, the Chairman of the meeting, shall appoint a secretary of the meeting.

Section 8. Compensation — By resolution of the Board, each director, shall receive a reasonable per diem allowance for his attendance at each meeting of the Board. As compensation, the Board shall receive and allocate an amount of not more than ten percent (10%) of the net income before income tax of the corporation during the preceding year. Such compensation shall be determined and apportioned among the directors in such manner as the Board may deem proper, subject to the approval of stock holders representing at least a majority of the outstanding capital stock at a regular or special meeting of the stockholders.

#### ARTICLE IV

#### OFFICERS

Section 1. Election/Appointment — Immediately after their election, the Board of Directors shall formally organize by electing the Chairman, the President, one or more Vice-President, the Treasurer, and the Secretary, at said meeting.

The Board may, from time to time, appoint such other officers as it may determine to be necessary or proper.

Any two (2) or more positions may be held concurrently by the same person, except that no one shall act as President and Treasurer or Secretary at the same time.

Section 2. Chairman of the Board — The Chairman of the Board of Directors shall preside at the meetings of the directors and the stockholders. He shall also exercise such powers and perform such duties as the Board of Directors may assign to him.



Section 3 President — The President, who shall be a director, shall be the Chief Executive Officer of the corporation and shall also have administration and direction of the day-to-day business affairs of the corporation. He shall exercise the following functions:

a) To preside at the meetings of the Board of Directors and of the stockholders in the absence of the Chairman of the Board of Directors;

b) To initiate and develop corporate objectives and policies and formulate long range projects, plans and programs for the approval of the Board of Directors, including those for executive training, development and compensation;

c) To have general supervision and management of the business affairs and property of the corporation;

d) To ensure that the administrative and operational policies of the corporation are carried out under his supervision and control;

e) Subject to guidelines prescribed by law, to appoint remove, suspend or discipline employees of the corporation, prescribe their duties, and determine their salaries;

f) To oversee the preparation of the budgets and the statements of accounts of the corporation;

g) To prepare such statements and reports of the corporation as may be required of him by law;

h) To represent the corporation at all functions and proceedings;

i) To execute on behalf of the corporation all contracts, agreements and other instruments affecting the interests of the corporation which require the approval of the Board of Directors, except as otherwise directed by the Board of Directors;

j) To make reports to the Board of Directors and stockholders;

k) To sign certificates of stock;

l) To perform such other duties as are incident to his office or are entrusted to him by the Board of Directors.

The President may assign the exercise or performance of any of the foregoing powers, duties and functions to any other officer(s), subject always to his supervision and control.

Section 4. The Vice-President(s) - If one or more Vice-Presidents are appointed, he/they shall have such powers and shall perform such duties as may from time to time be assigned to him/them by the Board of Directors or by the President.

Section 5. The Secretary - The Secretary must be a resident and a citizen of the Philippines. He shall be the custodian of and shall maintain the corporate books and record and shall be the recorder of the corporation's formal actions and transactions. He shall have the following specific powers and duties:

a) To record or see to the proper recording of the minutes and transactions of all meetings of the directors and the stockholders and to maintain minute books of such meetings in the form and manner required by law;

b) To keep or cause to be kept record books showing the details required by law with respect to the stock certificates of the corporation, including ledgers and transfer books showing all shares of the corporation subscribed, issued and transferred;

c) To keep the corporate seal and affix it to all papers and documents requiring a seal, and to attest by his signature all corporate documents requiring the same;

d) To attend to the giving and serving of all notices of the corporation required by law or these by-laws to be given;

e) To certify to such corporate acts, countersign corporate documents or certificates, and make reports or statements as may be required of him by law or by government rules and regulations.

f) To act as the inspector at the election of directors and, as such, to determine the number of shares of stock outstanding and entitled to vote, the shares of stock represented at the meeting, the existence of a quorum, the validity and effect of proxies, and to re-

ceive votes, ballots or consents, hear and determine all challenges and questions arising in connection with the right to vote, count and tabulate all votes, ballots or consents, determine the result, and do such acts as are proper to conduct the election or vote. The Secretary may assign the exercise or performance of any or all of the foregoing duties, powers and functions to any other person or persons, subject always to his supervision and control.

g) To perform such other duties as are incident to his office or as may be assigned to him by the Board of Directors or the President.

Section 6. The Treasurer - The Treasurer of the corporation shall be its chief fiscal officer and the custodian of its funds, securities and property. The Treasurer shall have the following duties:

a) To keep full and accurate accounts of receipts and disbursements in the books of the corporation.

b) To have custody of, and be responsible for, all the funds, securities and bonds of the corporation;

c) To deposit in the name and to the credit of the corporation, in such bank as may be designated from time to time by the Board of Directors, all the moneys, funds, securities, bonds, and similar valuable effects belonging to the corporation which may come under his control;

d) To render an annual statements showing the financial condition of the corporation and such other financial reports as the Board of Directors, the Chairman, or the President may, from time to time require;

e) To prepare such financial reports, statements, certifications and other documents which may, from time to time, be required by government rules and regulations and to submit the same to the proper government agencies;

f) To exercise such powers and perform such duties and functions as may be assigned to him by the President.

Section 7. Term of Office - The term of office of all officers shall be for a period of one (1) year and until their successors are duly elected and qualified. Such officers may however be sooner removed for cause.

Section 8. Vacancies - If any position of the officers becomes vacant by reason of death, resignation, disqualification or for any other

cause, the Board of Directors, by majority vote may elect a successor who shall hold office for the unexpired term.

Section 9. Compensation — The by-laws officers shall receive such remuneration as the Board of Directors may determine. All other officers shall receive such remuneration as the Board of Directors may determine upon recommendation of the President. A director shall not be precluded from serving the corporation in any other capacity as an officer, agent or otherwise, and receiving compensation therefor.

## ARTICLE V

### OFFICES

Section 1. The principal office of the corporation shall be located at the place stated in Article III of the Articles of Incorporation. The corporation may have such other branch offices, either within or outside the Philippines as the Board of Directors may designate or as the business of the corporation may, from time to time, require.

## ARTICLE VI

### AUDIT OF BOOKS, FISCAL YEAR AND DIVIDENDS

Section 1. External Auditors — At the regular stockholders' meeting, the external auditor or auditors of the corporation for the ensuing year shall be appointed. The external auditor or auditors shall examine, verify and report on the earnings and expenses of the corporation and shall certify the remuneration of the external auditor or auditors as determined by the Board of Directors.

Section 2. Fiscal Year — The fiscal year of the corporation shall begin on the first day of January and end on the last day of December of each year.



Section 3. Dividends – Dividends shall be declared and paid out of the unrestricted retained earnings which shall be payable in cash, property, or stock to all stockholders on the basis of outstanding stock held by them, as often and at such times as the Board of Directors may determine and in accordance with law and applicable rules and regulations.

## ARTICLE VII

### AMENDMENTS

Section 1. This by-laws may be amended or repealed by the affirmative vote of at least a majority of the Board of Directors and the stockholders representing a majority of the outstanding capital stock at any stockholders' meeting called for that purpose. However, the power to amend, modify, repeal or adopt new by-laws may be delegated to the Board of Directors by the affirmative vote of stockholders representing not less than two-thirds of the outstanding capital stock; provided, however, that any such delegation of powers to the Board of Directors to amend, repeal or adopt new by-laws may be revoked only by the vote of the stockholders representing a majority of the outstanding capital stock at a regular or special meeting.

## ARTICLE VIII

### SEAL

Section 1. Form and Inscriptions – The corporate seal shall be determined by the Board of Directors.

ARTICLE IX

ADOPTION CLAUSE

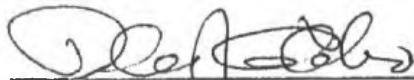
The foregoing by-laws was adopted by all the stockholders of the corporation on June 3, 1996 at the principal office of the corporation.

IN WITNESS WHEREOF, we, the undersigned stockholders present at said meeting and voting thereat in favor of the adoption of said by-laws, have hereunto subscribed our names this 3rd day of June, 1996 at the City of Makati

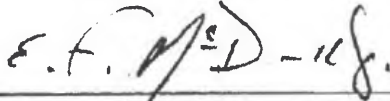
(Note: 1. If filed with Articles of Incorporation, should be signed by all incorporators; 2. If filed after incorporation, should be signed by majority of the subscribers and should submit director's certificate for the adaption of the by-laws.)



EDWARD F. McDONNELL



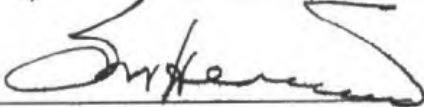
ROBERT COLOMBO



EDWARD FRANCIS McDONNELL, JR.



JOE ESTEBAN III

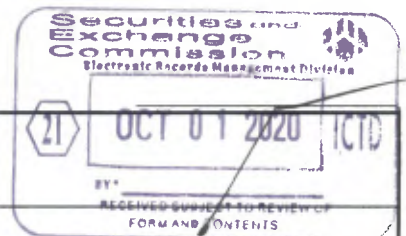


FLORENTINO M. HERRERA III

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# "ANNEX D-2"



**GENERAL INFORMATION SHEET (GIS)  
FOR THE YEAR 2020  
STOCK CORPORATION**

**GENERAL INSTRUCTIONS:**

1. FOR USER CORPORATION: THIS GIS SHOULD BE SUBMITTED WITHIN THIRTY (30) CALENDAR DAYS FROM THE DATE OF THE ANNUAL STOCKHOLDERS' MEETING. DO NOT LEAVE ANY ITEM BLANK. WRITE "N.A." IF THE INFORMATION REQUIRED IS NOT APPLICABLE TO THE CORPORATION OR "NONE" IF THE INFORMATION IS NON-EXISTENT. IF THE ANNUAL STOCKHOLDERS' MEETING IS HELD ON A DATE OTHER THAN THAT STATED IN THE BY-LAWS, THE GIS SHALL BE SUBMITTED WITHIN THIRTY (30) CALENDAR DAYS AFTER THE ELECTION OF THE DIRECTORS, TRUSTEES AND OFFICERS OF THE CORPORATION AT THE ANNUAL MEMBERS' MEETING.
2. IF NO MEETING IS HELD, THE CORPORATION SHALL SUBMIT THE GIS NOT LATER THAN JANUARY 30 OF THE FOLLOWING YEAR. HOWEVER, SHOULD AN ANNUAL STOCKHOLDERS' MEETING BE HELD THEREAFTER, A NEW GIS SHALL BE SUBMITTED/FILED.
3. THIS GIS SHALL BE ACCOMPLISHED IN ENGLISH AND CERTIFIED AND SWORN TO BY THE CORPORATE SECRETARY OF THE CORPORATION.
4. THE SEC SHOULD BE TIMELY APPRISED OF RELEVANT CHANGES IN THE SUBMITTED INFORMATION AS THEY ARISE. FOR CHANGES RESULTING FROM ACTIONS THAT AROSE BETWEEN THE ANNUAL MEETINGS, THE CORPORATION SHALL SUBMIT AMENDED GIS CONTAINING THE NEW INFORMATION TOGETHER WITH A COVER LETTER SIGNED THE CORPORATE SECRETARY OF THE CORPORATION. THE AMENDED GIS AND COVER LETTER SHALL BE SUBMITTED WITHIN SEVEN (7) DAYS AFTER SUCH CHANGE OCCURED OR BECAME EFFECTIVE.
5. SUBMIT FOUR (4) COPIES OF THE GIS TO THE RECEIVING SECTION AT THE SEC MAIN OFFICE, OR TO SEC SATELLITE OFFICES OR EXTENSION OFFICES. ALL COPIES SHALL UNIFORMLY BE ON A4 OR LETTER-SIZED PAPER. THE PAGES OF ALL COPIES SHALL USE ONLY ONE SIDE
6. ONLY THE GIS ACCOMPLISHED IN ACCORDANCE WITH THESE INSTRUCTIONS SHALL BE CONSIDERED AS HAVING BEEN FILED.
7. THIS GIS MAY BE USED AS EVIDENCE AGAINST THE CORPORATION AND ITS RESPONSIBLE DIRECTORS/OFFICERS FOR ANY VIOLATION OF EXISTING LAWS, RULES AND REGULATIONS

===== PLEASE PRINT LEGIBLY =====

<b>CORPORATE NAME:</b> PREMIER WINE AND SPIRITS, INC.		<b>DATE REGISTERED:</b> June 19, 1996
<b>BUSINESS/TRADE NAME:</b> PREMIER WINE AND SPIRITS, INC.		<b>FISCAL YEAR END:</b>
<b>SEC REGISTRATION NUMBER:</b> 1996600988		December 31st
<b>DATE OF ANNUAL MEETING PER BY-LAWS:</b> 2nd Tuesday of May		<b>CORPORATE TAX IDENTIFICATION NUMBER (TIN):</b> 004-851-242
<b>ACTUAL DATE OF ANNUAL MEETING:</b> September 15, 2020		<b>WEBSITE/URL ADDRESS:</b> N/A
<b>COMPLETE PRINCIPAL OFFICE ADDRESS:</b> Gate 1, Tabacalera Compound, 900 Romualdez St., Paco, Manila		<b>E-MAIL ADDRESS:</b> N/A
<b>COMPLETE BUSINESS ADDRESS:</b> Gate 1, Tabacalera Compound, 900 Romualdez St., Paco, Manila		<b>FAX NUMBER:</b> (02) 8353-9680
<b>NAME OF EXTERNAL AUDITOR &amp; ITS SIGNING PARTNER:</b> R.G. Manabat & Company / Gregorio I. Sambrano, Jr.		<b>SEC ACCREDITATION NUMBER (if applicable):</b> 1584
		<b>TELEPHONE NUMBER(S):</b> (02) 8524-2117 / 8524-2165
<b>PRIMARY PURPOSE/ACTIVITY/INDUSTRY PRESENTLY ENGAGED IN:</b> Buying, selling, distributing, marketing on wholesale basis, all kinds of goods, commodities, warehouse and merchandise	<b>INDUSTRY CLASSIFICATION:</b> N/A	<b>GEOGRAPHICAL CODE:</b> N/A

===== INTERCOMPANY AFFILIATIONS =====

PARENT COMPANY	SEC REGISTRATION NO.	ADDRESS
Cosco Capital, Inc.	147669	No. 900 Romualdez St., Paco, Manila
SUBSIDIARY/AFFILIATE	SEC REGISTRATION NO.	ADDRESS
N/A	N/A	N/A

NOTE: USE ADDITIONAL SHEET IF NECESSARY



GENERAL INFORMATION SHEET

STOCK CORPORATION

===== PLEASE PRINT LEGIBLY =====

Corporate Name: PREMIER WINE AND SPIRITS, INC.

A. Is the Corporation a covered person under the Anti Money Laundering Act (AMLA), as amended? (Rep. Acts. 9160/9164/10167/10365)  Yes  No

Please check the appropriate box:

<p><b>1.</b></p> <p><input type="checkbox"/> a. Banks</p> <p><input type="checkbox"/> b. Offshore Banking Units</p> <p><input type="checkbox"/> c. Quasi-Banks</p> <p><input type="checkbox"/> d. Trust Entities</p> <p><input type="checkbox"/> e. Non-Stock Savings and Loan Associations</p> <p><input type="checkbox"/> f. Pawnshops</p> <p><input type="checkbox"/> g. Foreign Exchange Dealers</p> <p><input type="checkbox"/> h. Money Changers</p> <p><input type="checkbox"/> i. Remittance Agents</p> <p><input type="checkbox"/> j. Electronic Money Issuers</p> <p><input type="checkbox"/> k. Financial Institutions which Under Special Laws are subject to Bangko Sentral ng Pilipinas' (BSP) supervision and/or regulation, including their subsidiaries and affiliates.</p>	<p><b>4.</b> <input type="checkbox"/> Jewelry dealers in precious metals, who, as a business, trade in precious metals</p>
<p><b>2.</b></p> <p><input type="checkbox"/> a. Insurance Companies</p> <p><input type="checkbox"/> b. Insurance Agents</p> <p><input type="checkbox"/> c. Insurance Brokers</p> <p><input type="checkbox"/> d. Professional Reinsurers</p> <p><input type="checkbox"/> e. Reinsurance Brokers</p> <p><input type="checkbox"/> f. Holding Companies</p> <p><input type="checkbox"/> g. Holding Company Systems</p> <p><input type="checkbox"/> h. Pre-need Companies</p> <p><input type="checkbox"/> i. Mutual Benefit Association</p> <p><input type="checkbox"/> j. All Other Persons and entities supervised and/or regulated by the Insurance Commission (IC)</p>	<p><b>5.</b> <input type="checkbox"/> Jewelry dealers in precious stones, who, as a business, trade in precious stone</p>
<p><b>3.</b></p> <p><input type="checkbox"/> a. Securities Dealers</p> <p><input type="checkbox"/> b. Securities Brokers</p> <p><input type="checkbox"/> c. Securities Salesman</p> <p><input type="checkbox"/> d. Investment Houses</p> <p><input type="checkbox"/> e. Investment Agents and Consultants</p> <p><input type="checkbox"/> f. Trading Advisors</p> <p><input type="checkbox"/> g. Other entities managing Securities or rendering similar services</p> <p><input type="checkbox"/> h. Mutual Funds or Open-end Investment Companies</p> <p><input type="checkbox"/> i. Close-end Investment Companies</p> <p><input type="checkbox"/> j. Common Trust Funds or Issuers and other similar entities</p> <p><input type="checkbox"/> k. Transfer Companies and other similar entities</p> <p><input type="checkbox"/> l. Other entities administering or otherwise dealing in currency, commodities or financial derivatives based there on</p> <p><input type="checkbox"/> m. Entities administering or otherwise dealing in valuable objects</p> <p><input type="checkbox"/> n. Entities administering or otherwise dealing in cash Substitutes and other similar monetary instruments or property supervised and/or regulated by the Securities and Exchange Commission (SEC)</p>	<p><b>6.</b> Company service providers which, as a business, provide any of the following services to third parties:</p> <p><input type="checkbox"/> a. acting as a formation agent of juridical persons</p> <p><input type="checkbox"/> b. acting as (or arranging for another person to act as) a director or corporate secretary of a company, a partner of a partnership, or a similar position in relation to other juridical persons</p> <p><input type="checkbox"/> c. providing a registered office, business address or accommodation, correspondence or administrative address for a company, a partnership or any other legal person or arrangement</p> <p><input type="checkbox"/> d. acting as (or arranging for another person to act as) a nominee shareholder for another person</p>
<p><b>7.</b> Persons who provide any of the following services:</p> <p><input type="checkbox"/> a. managing of client money, securities or other assets</p> <p><input type="checkbox"/> b. management of bank, savings or securities accounts</p> <p><input type="checkbox"/> c. organization of contributions for the creation, operation or management of companies</p> <p><input type="checkbox"/> d. creation, operation or management of juridical persons or arrangements, and buying and selling business entities</p>	<p><b>8.</b> <input type="checkbox"/> None of the above</p>
<p><b>Describe nature of business:</b></p>	<p><b>Buying, selling, distributing, marketing on wholesale basis, all kinds of goods, commodities, warehouse and merchandise</b></p>

B. Has the Corporation complied with the requirements on Customer Due Diligence (CDD) or Know Your Customer (KYC), record-keeping, and submission of reports under the AMLA, as amended, since the last filing of its GIS?  Yes  No

**GENERAL INFORMATION SHEET  
STOCK CORPORATION**

===== PLEASE PRINT LEGIBLY =====

**CORPORATE NAME:** PREMIER WINE AND SPIRITS, INC.

**CAPITAL STRUCTURE**

**AUTHORIZED CAPITAL STOCK**

	TYPE OF SHARES *	NUMBER OF SHARES	PAR/STATED VALUE	AMOUNT (PhP) (No. of shares X Par/Stated Value)
	COMMON	1,500,000	100.00	150,000,000.00
<b>TOTAL</b>		<b>1,500,000</b>	<b>TOTAL P</b>	<b>150,000,000.00</b>

**SUBSCRIBED CAPITAL**

FILIPINO	NO. OF STOCK-HOLDERS	TYPE OF SHARES *	NUMBER OF SHARES	NUMBER OF SHARES IN THE HANDS OF THE PUBLIC **	PAR/STATED VALUE	AMOUNT (PhP)	% OF OWNERSHIP
	8	COMMON	1,500,000		100.00	150,000,000.00	100.00%
		COMMON					
<b>TOTAL</b>			<b>1,500,000</b>	<b>TOTAL</b>	<b>TOTAL P</b>	<b>150,000,000.00</b>	<b>100.00%</b>

FOREIGN (INDICATE BY NATIONALITY)	NO. OF STOCK-HOLDERS	TYPE OF SHARES *	NUMBER OF SHARES	NUMBER OF SHARES IN THE HANDS OF THE PUBLIC **	PAR/STATED VALUE	AMOUNT (PhP)	% OF OWNERSHIP
N/A	N/A	N/A	N/A		N/A	N/A	N/A

Percentage of Foreign Equity : **TOTAL 0 TOTAL TOTAL P 0.00 0.00%**  
**TOTAL SUBSCRIBED P 150,000,000.00 100.00%**

**PAID-UP CAPITAL**

FILIPINO	NO. OF STOCK-HOLDERS	TYPE OF SHARES *	NUMBER OF SHARES	PAR/STATED VALUE	AMOUNT (PhP)	% OF OWNERSHIP
	8	COMMON	1,500,000	100.00	150,000,000.00	100.00%
<b>TOTAL</b>			<b>1,500,000</b>	<b>TOTAL P</b>	<b>150,000,000.00</b>	<b>100.00%</b>

FOREIGN (INDICATE BY NATIONALITY)	NO. OF STOCK-HOLDERS	TYPE OF SHARES *	NUMBER OF SHARES	PAR/STATED VALUE	AMOUNT (PhP)	% OF OWNERSHIP
N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b>TOTAL</b>			<b>0</b>	<b>TOTAL P</b>	<b>0.00</b>	<b>0.00%</b>
			<b>TOTAL PAID-UP P</b>	<b>150,000,000.00</b>	<b>100.00%</b>	

NOTE: USE ADDITIONAL SHEET IF NECESSARY

\* Common, Preferred or other classification

\*\* Other than Directors, Officers, Shareholders owning 10% of outstanding shares.

## GENERAL INFORMATION SHEET

STOCK CORPORATION  
PLEASE PRINT LEGIBLY

<b>CORPORATE NAME:</b>		<b>PREMIER WINE AND SPIRITS, INC.</b>						
DIRECTORS / OFFICERS								
NAME/CURRENT RESIDENTIAL ADDRESS	NATIONALITY	INC'R	BOARD	GENDER	STOCK HOLDER	OFFICER	EXEC. COMM.	TAX IDENTIFICATION NUMBER
1. JOSE PAULINO SANTAMARINA ██ ██ ██	Filipino	Y	C	F	Y	Chairman and President	N/A	██████████
2. ROBIN DERRICK CO CHUA ██ ██	Filipino	N	M	M	Y	Managing Director	N/A	██████████
3. SUSAN P. CO ██ ██	Filipino	N	M	F	Y	Director	N/A	██████████
4. FERDINAND VINCENT P. CO ██ ██	Filipino	N	M	M	Y	Director	N/A	██████████
5. PAMELA JUSTINE P. CO ██ ██	Filipino	N	M	F	Y	Director	N/A	██████████
6. CAMILLE CLARISSE P. CO ██ ██	Filipino	N	M	F	N	Director	N/A	██████████
7. KATRINA MARIE P. CO ██ ██	Filipino	N	M	F	N	Director	N/A	██████████
8. EVELYN B. BINANITAN ██ ██	Filipino	N	N	F	N	Treasurer	N/A	██████████
9. MARY S. DEMETILLO ██ ██	Filipino	N	N	F	N	Chief Finance Officer	N/A	██████████
10. MARICEL B. JOYAG ██ ██	Filipino	N	N	F	N	Corporate Secretary	N/A	██████████
11. CANDY H. DACANAY-DATUON ██ ██	Filipino	N	N	F	N	Assistant Corporate Secretary	N/A	██████████

**INSTRUCTION:**  
 FOR SEX COLUMN, PUT "F" FOR FEMALE, "M" FOR MALE.  
 FOR BOARD COLUMN, PUT "C" FOR CHAIRMAN, "M" FOR MEMBER, "I" FOR INDEPENDENT DIRECTOR.  
 FOR INC'R COLUMN, PUT "Y" IF AN INCORPORATOR, "N" IF NOT.  
 FOR STOCKHOLDER COLUMN, PUT "Y" IF A STOCKHOLDER, "N" IF NOT.  
 FOR OFFICER COLUMN, INDICATE PARTICULAR POSITION IF AN OFFICER, FROM VP UP INCLUDING THE POSITION OF THE TREASURER, SECRETARY, COMPLIANCE OFFICER AND/OR ASSOCIATED PERSON.  
 FOR EXECUTIVE COMMITTEE, INDICATE "C" IF MEMBER OF THE COMPENSATION COMMITTEE; "A" FOR AUDIT COMMITTEE; "N" FOR NOMINATION AND ELECTION COMMITTEE. ADDITIONALLY WRITE "C" AFTER SLASH IF CHAIRMAN AND "M" IF MEMBER.





**GENERAL INFORMATION SHEET**  
STOCK CORPORATION

===== PLEASE PRINT LEGIBLY =====			
<b>CORPORATE NAME: PREMIER WINE AND SPIRITS, INC.</b>			
<b>1. INVESTMENT OF CORPORATE FUNDS IN ANOTHER CORPORATION</b>	<b>AMOUNT (PhP)</b>	<b>DATE OF BOARD RESOLUTION</b>	
1.1 STOCKS	N/A	N/A	
1.2 BONDS/COMMERCIAL PAPER (Issued by Private Corporations)	N/A	N/A	
1.3 LOANS/ CREDITS/ ADVANCES	N/A	N/A	
1.4 GOVERNMENT TREASURY BILLS	N/A	N/A	
1.5 OTHERS	N/A	N/A	
<b>2. INVESTMENT OF CORPORATE FUNDS IN ACTIVITIES UNDER ITS SECONDARY PURPOSES (PLEASE SPECIFY:)</b>	<b>DATE OF BOARD RESOLUTION</b>	<b>DATE OF STOCKHOLDERS RATIFICATION</b>	
N/A	N/A	N/A	
<b>3. TREASURY SHARES</b>	<b>NO. OF SHARES</b>	<b>% AS TO THE TOTAL NO. OF SHARES ISSUED</b>	
	N/A		
<b>4. UNRESTRICTED/UNAPPROPRIATED RETAINED EARNINGS AS OF END OF LAST FISCAL YEAR : 774,403,259.00</b>			
<b>5. DIVIDENDS DECLARED DURING THE IMMEDIATELY PRECEDING YEAR:</b>			
<b>TYPE OF DIVIDEND</b>	<b>AMOUNT (PhP)</b>	<b>DATE DECLARED</b>	
5.1 CASH	235,759,865.00	December 31, 2019	
5.2 STOCK	N/A	N/A	
5.3 PROPERTY	N/A	N/A	
<b>TOTAL</b>	<b>P</b>		
<b>6. ADDITIONAL SHARES ISSUED DURING THE PERIOD:</b>			
<b>DATE</b>	<b>NO. OF SHARES</b>	<b>AMOUNT</b>	
N/A	N/A	N/A	
<b>SECONDARY LICENSE/REGISTRATION WITH SEC AND OTHER GOV'T AGENCY:</b>			
<b>NAME OF AGENCY:</b>	<b>SEC</b>	<b>B S P</b>	<b>IC</b>
<b>TYPE OF LICENSE/REGN.</b>	N/A	N/A	N/A
<b>DATE ISSUED:</b>	N/A	N/A	N/A
<b>DATE STARTED OPERATIONS:</b>	N/A	N/A	N/A
<b>TOTAL ANNUAL COMPENSATION OF DIRECTORS DURING THE PRECEDING FISCAL YEAR (in PhP)</b>	<b>TOTAL NO. OF OFFICERS</b>	<b>TOTAL NO. OF RANK &amp; FILE EMPLOYEES</b>	<b>TOTAL MANPOWER COMPLEMENT</b>
-	48	52	100

NOTE: USE ADDITIONAL SHEET IF NECESSARY

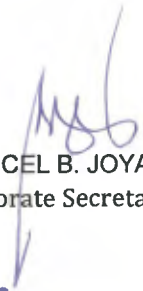
I, MARICEL B. JOYAG Corporate Secretary of PREMIER WINE AND SPIRITS, INC. declare under penalty of perjury that all matters set forth in this GIS have been made in good faith, duly verified by me and to the best of my knowledge and belief are true and correct.

I hereby attest that all the information in this GIS are being submitted in compliance with the rules and regulations of the Securities and Exchange Commission (SEC) the collection, processing, storage and sharing of said information being necessary to carry out the functions of public authority for the performance of the constitutionally and statutorily mandated functions of the SEC as a regulatory agency.

I further attest that I have been authorized by the Board of Directors/Trustees to file this GIS with the SEC.

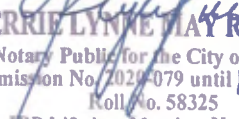
I understand that the Commission may place the corporation under delinquent status for failure to submit the reportorial requirements three (3) times, consecutively or intermittently, within a period of five (5) years (Section 177, RA No. 11232).

SEP 30 2020  
Done this \_\_\_\_\_ day of September 2020 in the City of Manila.

  
MARICEL B. JOYAG  
Corporate Secretary

SUBSCRIBED AND SWORN TO before me in the City of Manila on SEP 30 2020 by affiant who personally appeared before me and exhibited to me her Tax Identification Card with no. [REDACTED] issued by the Bureau of Internal Revenue.

Doc. No. 292  
Page No. 60  
Book No. 24  
Series of 2020.

  
CHERRIE LYNNE MAY R. PEREZ  
Notary Public for the City of Manila  
Commission No. 2020-079 until Dec 31, 2021  
Roll No. 58325  
IBP Lifetime Member No. 09093  
PTR No. 9120218/01-02-2020/Mla.  
MCLE Compliance No. VI-0022488/04-16-19  
No. 900 Romualdez St., Paco, Manila

**BENEFICIAL OWNERSHIP DECLARATION**

**SEC REGISTRATION NUMBER:**

**CORPORATE NAME:**

<p><b>Instructions:</b></p> <ol style="list-style-type: none"> <li>1. Identify the Beneficial Owner/s of the corporation as described in the Categories of Beneficial Ownership in Items A to I below. List down as many as you can identify. You may use an additional sheet if necessary.</li> <li>2. Fill in the required information on the beneficial owner in the fields provided for.</li> <li>3. In the "Category of Beneficial Ownership" column, indicate the letter(s) corresponding thereto. In the event that the person identified as beneficial owner falls under several categories, indicate all the letters corresponding to such categories.</li> <li>4. If the category is under letter "I", indicate the position held (i.e., Director/Trustee, President, Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, etc.).</li> <li>5. Do not leave any item blank. Write "N/A" if the information required is not applicable or "NONE" if non-existent.</li> </ol>
--

"Beneficial Owner" refers to any natural person(s) who ultimately own(s) or control(s) or exercise(s) ultimate effective control over the corporation. This definition covers the natural person(s) who actually own or control the corporation as distinguished from the legal owners. Such beneficial ownership may be determined on the basis of the following:

- | <u>Category</u> | <u>Description</u>  |
|-----------------|---|
| <b>A</b>        | Natural person(s) owning, directly or indirectly or through a chain of ownership, at least twenty-five percent (25%) of the voting rights, voting shares or capital of the reporting corporation.   |
| <b>B</b>        | Natural person(s) who exercise control over the reporting corporation, alone or together with others, through any contract, understanding, relationship, intermediary or tiered entity.   |
| <b>C</b>        | Natural person(s) having the ability to elect a majority of the board of directors/trustees, or any similar body, of the corporation.   |
| <b>D</b>        | Natural person(s) having the ability to exert a dominant influence over the management or policies of the corporation.  |
| <b>E</b>        | Natural person(s) whose directions, instructions, or wishes in conducting the affairs of the corporation are carried out by majority of the members of the board of directors of such corporation who are accustomed or under an obligation to act in accordance with such person's directions, instructions or wishes.   |
| <b>F</b>        | Natural person(s) acting as stewards of the properties of corporations, where such properties are under the care or administration of said natural person(s).   |
| <b>G</b>        | Natural person(s) who actually own or control the reporting corporation through nominee shareholders or nominee directors acting for or on behalf of such natural persons.  |
| <b>H</b>        | Natural person(s) ultimately owning or controlling or exercising ultimate effective control over the corporation through other means not falling under any of the foregoing categories.   |
| <b>I</b>        | Natural person(s) exercising control through positions held within a corporation (i.e., responsible for strategic decisions that fundamentally affect the business practices or general direction of the corporation such as the members of the board of directors or trustees or similar body within the corporation; or exercising executive control over the daily or regular affairs of the corporation through a senior management position). This category is only applicable in exceptional cases where no natural person is identifiable who ultimately owns or exerts control over the corporation, the reporting corporation having exhausted all reasonable means of identification and provided there are no grounds for suspicion. |

COMPLETE NAME (Surname, Given Name, Middle Name, Name Extension (i.e., Jr., Sr., III))	SPECIFIC RESIDENTIAL ADDRESS	NATIONALITY	DATE OF BIRTH	TAX IDENTIFICATION NO.	% OF OWNERSHIP <sup>1</sup> / % OF VOTING RIGHTS <sup>2</sup>	TYPE OF BENEFICIAL OWNER <sup>3</sup> Direct (D) or Indirect (I)	CATEGORY OF BENEFICIAL OWNERSHIP
██████████	██████████ ██████████ ██████████	██████████	██████████	██████████	██████████	██████████	██████████
██████████	██████████ ██████████ ██████████	██████████	██████████	██████████	██████████	██████████	██████████

*Note: This page is not for uploading on the SEC IView.*

<sup>1</sup> For Stock Corporations.  
<sup>2</sup> For Non-Stock Corporations.  
<sup>3</sup> For Stock Corporations.



**COVER SHEET**

For

**AUDITED FINANCIAL STATEMENTS**

SEC Registration Number

A	1	9	9	6	0	0	9	8	8
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**COMPANY NAME**

P	R	E	M	I	E	R		W	I	N	E		A	N	D		S	P	I	R	I	T	S	,		I	N	C	.		
(	A		W	h	o	l	i	l	y	-	o	w	n	e	d		S	u	b	s	i	d	i	a	r	y		o	f		
C	o	s	c	o		C	a	p	i	t	a	l	,		I	n	c	.	)												

**PRINCIPAL OFFICE ( No. / Street / Barangay / City / Town / Province)**

G	a	t	e		1	,		T	a	b	a	c	a	l	e	r	a		C	o	m	p	o	u	n	d				
9	0	0		D	.		R	o	m	u	a	l	d	e	z		S	t	r	e	e	t								
P	a	c	o	,		M	a	n	i	l	a																			

Form Type

A	A	F	S
---	---	---	---

Department requiring the report

--

Secondary License Type, if Applicable

--

**COMPANY INFORMATION**

Company's email Address

N/A
-----

Company's Telephone Number/s

524 - 2117
------------

Mobile Number

N/A
-----

No. of Stockholders

8
---

Annual Meeting (Month / Day)

09/10
-------

Fiscal Year (Month / Day)

December 31
-------------

**CONTACT PERSON INFORMATION**

The designated contact person **MUST** be an Officer of the Corporation

Name of Contact Person

Mary Demetillo
----------------

Email Address

N/A
-----

Telephone Number/s

524 - 2117
------------

Mobile Number

N/A
-----

**CONTACT PERSON'S ADDRESS**

Gate 1, Tabacalera Compound, 900 D. Romualdez Street, Paco, Manila
--

*Note 1: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.*

*Note 2: All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.*



**STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR FINANCIAL STATEMENTS**

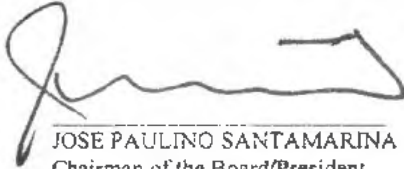
The management of **Premier Wine and Spirits, Inc. (the "Company")**, is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, as at and for the years ended December 31, 2019 and 2018, in accordance with the prescribed financial reporting framework indicated therein, 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.

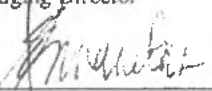
The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders.

- (a) **R.G. Manabat & Co.**, the independent auditor appointed by the stockholders, has audited the financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

  
JOSE PAULINO SANTAMARINA  
Chairman of the Board/President

  
ROBIN DERRICK CO CHUA  
Managing Director

  
EVELYN B. BINANITAN  
Treasurer



Signed this 19th day of November 2020



# PREMIER WINE AND SPIRITS, INC.

(A Wholly-owned Subsidiary of Cosco Capital, Inc.)

**FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

With Independent Auditors' Report



R.G. Manabat & Co.  
The KPMG Center, 9/F  
6787 Ayala Avenue, Makati City  
Philippines 1226  
Telephone +63 (2) 8885 7000  
Fax +63 (2) 8894 1985  
Internet [www.home.kpmg/ph](http://www.home.kpmg/ph)  
Email [ph-inquiry@kpmg.com](mailto:ph-inquiry@kpmg.com)

## REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders  
**Premier Wine and Spirits, Inc.**  
Gate 1, Tabacalera Compound  
900 D. Romualdez Street  
Paco, Manila

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of Premier Wine and Spirits, Inc. (the "Company"), a wholly-owned subsidiary of Cosco Capital, Inc., which comprise the statements of financial position as at December 31, 2019 and 2018, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended 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 *Auditors' Responsibilities for the Audits 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 the 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.

Firm Regulatory Registration & Accreditation  
PRC-BCA Registration No. 0003, valid until November 21, 2023  
SEC Accreditation No. 0003-SEC, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by SEC Accreditation No. 0004-FR-5)  
IC Accreditation No. 0003-IC, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by IC Circular Letter (CL) No. 2019-39, Transition clause)  
BSP Accreditation No. 0003-BSP, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by BSP Monetary Board Resolution No. 2181, Transition clause)

*Responsibilities of Management and the Board of Directors for the Financial Statements*

Management is responsible for the preparation and fair presentation of the 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.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

*Auditors' Responsibilities for the Audits of the 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 auditors' 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, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSA, we exercise professional judgment and maintain professional skepticism throughout the audits. 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 auditors' 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 auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

**KPMG**

- 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 the Board of Directors 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.

**Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010 of the Bureau of Internal Revenue**

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 26 to financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**R.G. MANABAT & CO.**

*Gregorio I. Sambrano Jr.*  
GREGORIO I. SAMBRANO, JR.  
Partner

CPA License No. 088825

SEC Accreditation No. 1548-AR-1, Group A, valid until December 17, 2021

Tax Identification No. 152-885-329

BIR Accreditation No. 08-001987-36-2018

Issued September 20, 2018; valid until September 19, 2021

PTR No. MKT 8116783

Issued January 2, 2020 at Makati City

December 18, 2020

Makati City, Metro Manila





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**REPORT OF INDEPENDENT AUDITORS  
TO ACCOMPANY FINANCIAL STATEMENTS FOR FILING  
WITH THE SECURITIES AND EXCHANGE COMMISSION**

The Board of Directors and Stockholders  
**Premier Wine and Spirits, Inc.**  
Gate 1, Tabacalera Compound  
900 D. Romualdez Street  
Paco, Manila

We have audited the accompanying financial statements of Premier Wine and Spirits, Inc. (the "Company"), a wholly-owned subsidiary of Cosco Capital, Inc., as at and for the year ended December 31, 2019, on which we have rendered our report dated December 18, 2020.

In compliance with the Revised Securities Regulation Code Rule 68, we are stating that the said Company has one (1) stockholder owning one hundred (100) or more shares.

**R.G. MANABAT & CO.**

  
GREGORIO I. SAMBRANO, JR.  
Partner

CPA License No. 088825  
SEC Accreditation No. 1548-AR-1, Group A, valid until December 17, 2021  
Tax Identification No. 152-885-329  
BIR Accreditation No. 08-001987-36-2018  
Issued September 20, 2018; valid until September 19, 2021  
PTR No. MKT 8116783  
Issued January 2, 2020 at Makati City

December 18, 2020  
Makati City, Metro Manila

Firm Regulatory Registration & Accreditation:  
PRC-BOA Registration No. 0003, valid until November 21, 2023  
SEC Accreditation No. 0003-SEC, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by SEC Accreditation No. 0004-FR-5)  
IC Accreditation No. 0003-IC, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by IC Circular Letter (CL) No. 2019-39, Transition clause)  
BSP Accreditation No. 0003-BSP, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by BSP Monetary Board Resolution No. 2161, Transition clause)

**PREMIER WINE AND SPIRITS, INC.**  
**(A Wholly-owned Subsidiary of Cosco Capital, Inc.)**  
**STATEMENTS OF FINANCIAL POSITION**

		December 31		January 1,
			2018	2018
	Note	2019	(As restated - see Note 24)	(As restated - see Note 24)
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash	5	P229,950,511	P130,920,946	P73,939,731
Trade and other receivables - net	6, 21	498,147,551	796,755,289	761,984,325
Inventories	7, 15	599,727,310	564,920,108	694,796,560
Prepaid expenses and other current assets	8	247,347,287	374,741,173	67,150,175
<b>Total Current Assets</b>		<b>1,575,172,659</b>	<b>1,867,337,516</b>	<b>1,597,870,791</b>
<b>Noncurrent Assets</b>				
Property and equipment - net	9	6,540,902	7,772,298	3,478,931
Right-of-use assets - net	19	4,851,092	14,626,093	16,973,987
Deferred income tax assets - net	20	3,705,373	3,920,025	6,207,569
Investment in an associate	10	118,193,553	-	-
Refundable deposits	19, 21	3,203,153	2,807,854	2,322,120
<b>Total Noncurrent Assets</b>		<b>136,494,073</b>	<b>29,126,270</b>	<b>28,982,607</b>
		<b>P1,711,666,732</b>	<b>P1,896,463,786</b>	<b>P1,626,853,398</b>
<b>LIABILITIES AND EQUITY</b>				
<b>Current Liabilities</b>				
Trade and other payables	11, 12	P148,974,105	P217,298,198	P284,379,689
Due to related parties	12, 23	192,851,618	297,700,000	297,700,000
Loan payable	13, 23	313,000,000	357,000,000	50,000,000
Dividends payable	14	100,000,000	100,000,000	100,000,000
Lease liabilities - current portion	19, 23	5,424,764	10,833,018	8,520,876
Income tax payable		212,594	5,626,712	24,366,430
<b>Total Current Liabilities</b>		<b>760,463,081</b>	<b>988,457,928</b>	<b>764,966,995</b>
<b>Noncurrent Liabilities</b>				
Lease liabilities - net of current portion	19, 23	1,268,352	6,693,116	11,547,826
Retirement benefits liability	18	9,203,625	6,562,556	14,233,985
<b>Total Noncurrent Liabilities</b>		<b>10,471,977</b>	<b>13,255,672</b>	<b>25,781,811</b>
<b>Total Liabilities</b>		<b>770,935,058</b>	<b>1,001,713,600</b>	<b>790,748,806</b>
<b>Equity</b>				
Capital stock- P100 par value:				
Authorized, issued and outstanding - 1,500,000 shares	14	150,000,000	150,000,000	150,000,000
Additional paid-in capital		1,500,000	1,500,000	1,500,000
Retained earnings	14	784,310,918	737,271,779	684,939,453
Accumulated remeasurements on retirement benefits		4,920,756	5,978,407	(334,861)
<b>Total Equity</b>		<b>940,731,674</b>	<b>894,750,186</b>	<b>836,104,592</b>
		<b>P1,711,666,732</b>	<b>P1,896,463,786</b>	<b>P1,626,853,398</b>

See Notes to Financial Statements.



**PREMIER WINE AND SPIRITS, INC.**  
**(A Wholly-owned Subsidiary of Cosco Capital, Inc.)**  
**STATEMENTS OF COMPREHENSIVE INCOME**

Years Ended December 31

	Note	2019	2018 (As restated - see Note 24)
NET SALES	12	P1,603,043,627	P2,368,580,890
COST OF GOODS SOLD	15	1,348,453,996	2,011,404,563
GROSS PROFIT		254,589,631	357,176,327
OPERATING EXPENSES	16	158,406,307	269,225,046
INCOME FROM OPERATIONS		96,183,324	87,951,281
SHARE IN NET LOSS ON INVESTMENT IN AN ASSOCIATE	10	(8,762,851)	-
OTHER CHARGES - Net	17	(20,573,757)	(21,425,662)
INCOME BEFORE INCOME TAX		66,846,716	66,525,619
PROVISION FOR INCOME TAX	20	19,807,577	14,193,293
NET INCOME		47,039,139	52,332,326
<b>OTHER COMPREHENSIVE INCOME</b>			
<i>Item that will never be reclassified to profit or loss in subsequent periods</i>			
Remeasurement gain (loss) on retirement benefits	18	(1,510,929)	9,018,955
Deferred income tax benefit (expense)	20	453,278	(2,705,687)
		(1,057,651)	6,313,268
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>P45,981,488</b>	<b>P58,645,594</b>

See Notes to Financial Statements.



**PREMIER WINE AND SPIRITS, INC.**  
**(A Wholly-owned Subsidiary of Cosco Capital, Inc.)**  
**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<i>Note</i>	Capital Stock	Additional Paid-in Capital	Accumulated Remeasurements on Retirement Benefits	Retained Earnings (Note 14)	Total
Balances at January 1, 2018, as previously reported		P150,000,000	P1,500,000	(P334,861)	P685,472,457	P836,637,596
Restatements	24	-	-	-	(533,004)	(533,004)
Balances at January 1, 2018, as restated		150,000,000	1,500,000	(334,861)	684,939,453	836,104,592
Net income for the year, as restated		-	-		52,332,326	52,332,326
Other comprehensive income for the year		-	-	6,313,268	-	6,313,268
Total comprehensive income for the year, as restated		-	-	6,313,268	52,332,326	58,645,594
Balances at December 31, 2018, as restated		150,000,000	1,500,000	5,978,407	737,271,779	894,750,186
Net income for the year		-	-	-	47,039,139	47,039,139
Other comprehensive loss for the year		-	-	(1,057,651)	-	(1,057,651)
Total comprehensive income (loss) for the year		-	-	(1,057,651)	47,039,139	45,981,488
<b>Balances at December 31, 2019</b>		<b>P150,000,000</b>	<b>P1,500,000</b>	<b>P4,920,756</b>	<b>P784,310,918</b>	<b>P940,731,674</b>

*See Notes to Financial Statements.*

**PREMIER WINE AND SPIRITS, INC.**  
**(A Wholly-owned Subsidiary of Cosco Capital, Inc.)**  
**STATEMENTS OF CASH FLOWS**

		Years Ended December 31	
	Note	2019	2018 (As restated - Note 24)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax		P66,846,716	P66,525,619
Adjustments for:			
Interest expense	12, 13, 17, 19	24,951,433	20,337,987
Depreciation and amortization	9, 16, 19	12,820,052	12,434,257
Share in net loss on investment in an associate	10	8,762,851	-
Unrealized foreign exchange loss (gain)	17, 21	(1,315,329)	983,228
Interest income	5, 17	(1,398,227)	(354,578)
Retirement benefits costs	18	1,130,140	1,347,526
Provision for probable losses	11, 16	-	8,153,093
Operating income before working capital changes		111,797,636	109,427,132
Decrease (increase) in:			
Trade and other receivables - net		298,607,738	(34,770,964)
Inventories		(34,807,202)	129,876,452
Prepaid expenses and other current assets		127,393,886	(307,590,998)
Refundable deposits		(395,299)	(485,734)
Increase in trade and other payables		(63,693,165)	(79,533,412)
Cash generated from (used in) operations		438,903,594	(183,077,524)
Interest paid		(28,267,032)	(17,022,388)
Income taxes paid		(24,553,765)	(33,351,153)
Interest received	5, 17	1,398,227	354,578
Net cash from (used in) operating activities		387,481,024	(233,096,487)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of shares of stock of an associate	10	(126,956,404)	-
Additions to property and equipment	9	(1,813,655)	(7,274,121)
Cash used in investing activities		(128,770,059)	(7,274,121)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Payments of:			
Loan payable	13, 23	(170,000,000)	(130,000,000)
Advances from related parties	12, 23	(104,848,382)	-
Lease liabilities	19, 23	(10,833,018)	(9,648,177)
Proceeds from availment of loan payable	13, 23	126,000,000	437,000,000
Net cash from (used in) financing activities		(159,681,400)	297,351,823
<b>NET INCREASE IN CASH</b>		<b>99,029,565</b>	<b>56,981,215</b>
<b>CASH AT BEGINNING OF YEAR</b>		<b>130,920,946</b>	<b>73,939,731</b>
<b>CASH AT END OF YEAR</b>	<b>5</b>	<b>P229,950,511</b>	<b>P130,920,946</b>

See Notes to Financial Statements

**PREMIER WINE AND SPIRITS, INC.**  
**(A Wholly-owned Subsidiary of Cosco Capital, Inc.)**

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**NOTES TO FINANCIAL STATEMENTS**

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**1. Reporting Entity**

Premier Wine and Spirits, Inc. (the "Company") was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on June 19, 1996. The Company's primary purpose is to engage in the business of buying, selling, distribution and marketing on a wholesale basis, any and all kinds of beverages, spirits and liquors and to deal in any materials, articles or things required in connection with or incidental to the importation, exportation, manufacturing, marketing or distribution of such products.

The Company is a wholly-owned subsidiary of Cosco Capital, Inc. ("CosCo" or "Parent Company"), a company incorporated in the Philippines. CosCo's shares of stock are listed for trading at the Philippine Stock Exchange (PSE).

The Company's registered office address is at Gate 1, Tabacalera Compound, 900 D. Romualdez Street, Paco, Manila.

**2. Basis of Preparation**

Statement of Compliance

The financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). PFRS which are issued by the Philippine Financial Reporting Standards Council (FRSC), consist of PFRS, Philippine Accounting Standards (PAS), and Philippine Interpretations based on the International Financial Reporting Interpretations Committee (IFRIC) interpretations.

Basis of Measurement

The financial statements have been prepared on the historical cost basis of accounting except for retirement benefits liability which is measured at the present value of the defined benefits obligation.

Functional and Presentation Currency

The financial statements are measured using the currency of the primary economic environment in which the Company operates. The financial statements are presented in Philippine Peso, which is also the Company's functional currency. All amounts are rounded to the nearest Peso, except when otherwise indicated.

Authorization for Issuance of the Financial Statements

The accompanying financial statements of the Company as at and for the years ended December 31, 2019 and 2018 were approved and authorized for issue by the Board of Directors (BOD) on November 9, 2020.

### 3. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in these financial statements, except for the changes in accounting policies as explained below.

#### Adoption of New Standards and Amendments to Standards

The Company has adopted the following new standards and amendments to standards starting January 1, 2019 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption of these standards did not have any significant impact on the Company's financial statements. These are as follows:

- PFRS 16, *Leases*, supersedes PAS 17, *Leases*, and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements.

Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were introduced.

The Company applied PFRS 16 using the retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings as at January 1, 2018. Accordingly, the comparative information presented, as at and for the year ended December 31, 2018, is restated.

#### *Impact on Financial Statements*

In transition to PFRS 16 on January 1, 2019 using the retrospective approach, the Company recognized right-of-use assets and lease liabilities on the commencement date of the lease agreement. Consequently, the cumulative effect of the transition was recognized on January 1, 2018. The impact on transition as at January 1, 2018 is presented in notes for prior period restatement (see Note 24).

As at January 1, 2018, the Company recognized right-of-use assets and lease liabilities amounting to P16,973,987 and P20,068,702, respectively. As at December 31, 2019 and 2018, the carrying amounts of the right-of-use assets and lease liabilities are as follows:

	Note	2019	2018
Right-of-use assets	19	P4,851,092	P14,626,093
Lease liabilities	19	6,693,116	17,526,134

When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate as of date of lease commencement date. The weighted average rate applied is 4.74%.



The Company has also adopted the following amendments to standards and interpretations which did not have any significant impact on the Company's financial statements.

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*
- PFRS 9, *Financial Instruments - Prepayment Features with Negative Compensation (Amendments)*
- PAS 19, *Employee Benefits - Plan Amendment, Curtailment or Settlement (Amendments)*
- Annual Improvements to PFRS Standards 2015-2017 Cycle - various standards

#### Financial Instruments

##### *Date of Recognition*

The Company recognizes a financial asset or a financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases and sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

##### *Initial Recognition of Financial Instruments*

Financial instruments are recognized initially at fair value. The initial measurement of financial instruments, except for those financial assets and financial liabilities at FVTPL, includes transaction costs. A trade receivable without a significant financing component is initially measured at the transaction price.

##### *Classification and Measurement of Financial Instruments*

On initial recognition, the Company classifies its financial assets in the following categories: measured at amortized cost, financial assets at FVTPL and financial assets at FVOCI. The classification depends on the business model for managing the financial assets and the contractual terms of its cash flows.

The Company classifies its financial liabilities as either financial liabilities at amortized cost or financial liabilities at FVTPL. The Company classifies all financial liabilities at amortized cost, except for: (a) financial liabilities designated by the Company at initial recognition as at FVTPL, when doing so results in more relevant information; (b) financial liabilities that arise when the transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies; (c) contingent consideration recognized by the Company in a business combination which shall subsequently be measured at fair value with changes recognized in profit or loss; and (d) financial guarantee contracts and commitments to provide a loan at a below market interest rate which are initially measured at fair value and subsequently at higher of amortized amount and amount of loss allowance.



#### *Business Model Assessment*

The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes: (a) the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether the management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets; (b) how the performance of the portfolio is evaluated and reported to the Company's management; (c) the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; (d) how managers of the business are compensated - e.g., whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and (e) the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

#### *Solely Payments of Principal and Interest Assessment*

Principal is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers contingent events that would change the amount or timing of cash flows, terms that may adjust the contractual coupon rate, including variable-rate features, prepayment and extension features, and terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse features).

The Company has no financial assets classified as financial assets at FVTPL and FVOCI as at December 31, 2019 and 2018.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

#### *Financial Assets at Amortized Cost*

A financial asset is measured at amortized cost if it is held within a business model whose objective is to hold assets to collect contractual cash flows, its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, and it is not designated as at FVTPL.

Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

Included in this category are the Company's cash in banks, trade and other receivables and refundable deposits.

#### *Financial Liabilities at Amortized Cost*

This category pertains to financial liabilities that are not held for trading or designated as at FVTPL upon inception of the liability. These include liabilities arising from operations or borrowings. The financial liabilities are recognized initially at fair value and subsequently carried at amortized cost, taking into account the impact of applying the effective interest rate method of amortization for any related premium, discount and any directly attributable transaction costs. These financial liabilities are included in current liabilities if maturity is within twelve months from reporting date. Otherwise, these are classified as noncurrent liabilities.

This category includes the Company's trade and other payables (excluding provision and payables to government agencies), due to related parties, dividends payable, loan payable and lease liabilities.

#### Impairment of Financial Assets.

The Company measures loss allowances at an amount equal to lifetime expected credit losses (ECLs), except for debt securities that are determined to have low credit risk at the reporting date and other debt securities and bank balances for which credit risk has not increased significantly since initial recognition, which are measured at 12-month ECLs.

Loss allowances for trade and other receivables is always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 360 days past due. The Company considers a financial asset to be in default when the customer is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security (if any is held) or the financial asset is more than 360 days past due on any material credit obligation to the Company.

When determining if there has been a significant increase in credit risk, the Company considers reasonable and supportable information that is available without undue cost or effort and that is relevant for the particular financial instrument being assessed such as, but not limited to, the following factors:

- actual or expected external and internal credit rating downgrade;
- existing or forecasted adverse changes in business, financial or economic conditions; and
- actual or expected significant adverse changes in the operating results of the borrower.

The Company has assessed that the ECL on other financial assets at amortized cost is not material because the transactions with respect to these financial assets were entered into by the Company only with reputable banks and companies with good credit standing and relatively low risk of defaults. Accordingly, no additional provision for ECL on other financial assets at amortized cost was recognized in 2019 and 2018.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. The 12-month ECLs are a portion of lifetime ECLs that represents the ECLs resulting from default events on the financial instrument that are possible within 12 months after the reporting date or a shorter period if the expected life of the instrument is less than 12 months.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

ECLs are probability weighted-estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Company assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes significant financial difficulty of the borrower or issuer, a breach of contract such as default, the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise, when it is probable that the borrower will enter bankruptcy or other financial reorganization, or the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

Financial assets are written off when there is no reasonable expectation of recovery. The Company categorizes financial assets recorded at amortized cost for write off when a debtor fails to make payments or when it is probable that the receivable will not be collected. Where amortized cost financial assets have been written off, the Company continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognized in profit or loss.

#### Derecognition of Financial Assets and Financial Liabilities

##### *Financial Assets*

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

- the rights to receive cash flows from the asset have expired;
- the Company retains the rights 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 rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a "pass-through" arrangement and has neither transferred nor retained substantially all the risks and rewards 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 is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to pay.

#### *Financial Liabilities*

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 Financial Instruments

Financial assets and liabilities are offset and the net amount is 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. This is not generally the case with master netting agreements, and the related assets and liabilities are presented at gross in the statement of financial position.

#### Fair Value Measurement

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 measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to the Company.

The fair value of an asset or a liability is measured using the assumptions that the market participants would use when pricing the asset or liability, assuming that the market participants act in their economic best interest.

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 statement 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 markets 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 statement on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by reassessing 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.

As at December 31, 2019 and 2018, no financial asset or financial liability was recognized at fair value. The Company has no other assets or liabilities with recurring and non-recurring fair value measurements.

#### Inventories

Inventories, which consist of spirits, wines and specialty beverages, are valued at the lower of cost and net realizable value (NRV). Cost is comprised of purchase price, expenditure incurred in acquiring the inventories and other costs incurred in bringing them to their present location and condition. Cost is determined using the first-in, first-out method.

NRV represents the estimated selling price in the ordinary course of business less costs to be incurred in marketing, selling and distribution. In determining the NRV, the Company considers any adjustment necessary to write-down inventories to NRV for slow-moving and near expiry products based on physical inspection and management evaluation.

#### Investment in an Associate

An Associate is an entity over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Significant influence is defined as the power to participate in the financial and operating policy decisions of the entity but not control or joint control over those policies. An Associate is accounted for using the equity method. Investment in an associate is initially recognized at cost, which includes transaction costs. Subsequent to initial recognition, the financial statements include the Company's share of the profit or loss and OCI of associate, until the date on which significant influence ceases. Unrealized gains arising from transactions with associate are eliminated to the extent of the Company's interest in the associate. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

#### Prepaid Expenses and Other Current Assets

##### *Prepaid Expenses and Advances to Suppliers*

Prepaid expenses represent expenses not yet incurred but already paid in cash. Prepaid expenses are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are charged to profit or loss as these are consumed in operations or expire with the passage of time.

Prepaid expenses are classified in the statement of financial position as current asset when the cost of goods or services related to the prepayment are expected to be incurred within one (1) year from the reporting date. Otherwise, prepayments are classified as noncurrent assets.

Advances to suppliers are measured at the amount of initial down payment for purchases of inventories and are applied against future progress billings. These are classified as current assets in the statement of financial position.



#### Value-added Tax (VAT)

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

- where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of VAT included.

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of "Prepaid expenses and other current assets" or "Trade and other payables" in the statement of financial position, respectively.

#### Property and Equipment

Property and equipment is stated at cost less accumulated depreciation and amortization, and any impairment in value. The initial cost of property and equipment consists of its purchase price, including any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to profit or loss in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of the item of property and equipment.

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

	Number of Years
Transportation and equipment	3
Furniture and fixtures	3
Leasehold improvements	3 or lease term, whichever is shorter
Machinery and equipment	3
Office equipment	3

Depreciation or amortization of an item of property and equipment begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation or amortization ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, and the date the asset is derecognized.

The estimated useful lives and depreciation and amortization method are reviewed periodically to ensure that the periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation is recognized in profit or loss. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and any impairment in value are removed from the accounts and any resulting gain or loss is recognized in profit or loss.



#### Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. The capitalization of borrowing costs: (i) commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred; (ii) is suspended during the extended periods in which active development, improvement and construction of the assets are interrupted; and (iii) ceases when substantially all the activities necessary to prepare the assets are completed. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds.

Other borrowing costs are recognized as expense in the period in which they are incurred.

#### Impairment of Noncurrent Nonfinancial Assets

The Company assesses at end of each reporting period whether there is an indication that its noncurrent nonfinancial assets which consists of investment in an associate, right-of-use assets and property and equipment may be impaired. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets or the cash generating unit (CGU) are written down to their recoverable amounts. The recoverable amount of the noncurrent nonfinancial assets is the greater of fair value less cost to sell and value-in-use. The fair value less cost to sell is the price that would be received to sell an asset in an orderly transaction between market participants less cost to sell. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs. Impairment losses, if any, are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The increase amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount on a systemic basis over its remaining useful life.

#### Capital Stock

Ordinary or common shares are classified as equity. The proceeds from the issuance of ordinary or common shares are presented in equity as capital stock to the extent of the par value of the issued and outstanding shares and any excess of the proceeds over the par value of the shares issued, less any incremental costs directly attributable to the issuance, net of tax, is presented in equity as additional paid-in capital.

#### Retained Earnings

Retained earnings represent the cumulative balance of periodic net income or loss, dividend contributions, correction of prior year errors, effect of changes in accounting policy and other capital adjustments.

### Revenue Recognition

Revenue from contracts with customers is recognized upon transfer of goods to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods.

The following specific recognition criteria must also be met before revenue is recognized:

#### *Sale of Goods*

Revenue is recognized at the point in time when control of the asset is transferred to the customer, generally upon delivery. Revenue is recognized net of variable considerations, i.e. discounts, rebates, listing and slotting fees/display allowances and certain payments to customers after the initial sale of goods as reduction to revenue, unless it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

#### *Interest Income*

Interest income is recognized in profit or loss as it accrues, taking into account the effective yield on the asset.

### Cost and Expense Recognition

#### *Cost of Goods Sold*

Cost of goods sold is recognized when goods are delivered to the buyer. Expenses are recognized upon utilization of services or at the date they are incurred.

#### *Operating Expenses*

Operating expenses are costs incurred to sell or distribute the goods and to administer the business. It includes documentation processing and delivery, among others. Operating expenses are expensed as incurred.

#### 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 year in accordance with PFRS.

### Employee Benefits

#### *Short-term Employee Benefits*

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of the past service provided by the employee and the obligation can be estimated reliably.

#### *Retirement Benefits Liability and Costs*

The Company has an unfunded, non-contributory defined benefits retirement plan covering substantially all permanent, regular and full-time employees. The Company's obligation in respect of the defined benefits is calculated by estimating the amount of the future benefits that employees have earned in the current and prior periods and discounting that amount.

The calculation of defined benefits obligations is performed on a periodic basis by a qualified actuary using the projected unit credit method.

Remeasurements of the retirement benefits liability, which comprise of actuarial gains and losses, are recognized immediately in other comprehensive income. Such remeasurement are also immediately recognized in equity under "Accumulated remeasurements on retirement benefits". The Company determines the interest expense on the retirement benefits liability for the period by applying the discount rate used to measure the defined benefits obligation at the beginning of the annual period to the then retirement benefits liability, taking into account any changes in the retirement benefits liability during the period as a result of benefit payments, if any. Interest expense and other expenses related to defined benefits plans are recognized in profit or loss.

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

#### Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- the contract involves the use of an identified asset - this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and,
- the Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Company has the right to direct the use of the asset if either:
  - the Company has the right to operate the asset; or
  - the Company designed the asset in a way that predetermines how and for what purpose it will be used.

On transition to PFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. This policy is applied to contracts entered into, or changed, on or after January 1, 2019.

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

#### *Company as a Lessee*

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently amortized using the straight-line method from the commencement date to the end of the lease term unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case, the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment loss, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following: (a) fixed payments, including in-substance payments; (b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date; (c) amounts expected to be payable under a residual value guarantee; and, (d) the exercise price under a purchase option the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise and extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension, or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company has presented interest expense on the lease liability separately from the amortization charge for the right-of-use asset. The interest expense on lease liability is presented under "Other charges - net" in profit or loss.

#### Income Taxes

Provision for income tax is composed of current income tax and deferred income tax. Provision for income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income, in which case, it is recognized directly in equity or in other comprehensive income.

#### *Current Income Tax*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used as basis to compute the amount are those that have been enacted or substantively enacted at the reporting date.

#### *Deferred Income Tax*

Deferred income tax is provided, using the balance sheet liability method, 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 income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that sufficient future taxable profits will allow the deferred income tax asset to be recovered.

Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

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

#### Related Party Transactions and Relationships

Related party relationships exist when the party has the ability to control, directly or indirectly, through one or more intermediaries, or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting entity and its key management personnel, directors or stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely to the legal form.

#### Foreign Currency-denominated Transactions and Translations

Transactions in foreign currencies are recorded using the functional currency exchange rate at the date of the transaction. Outstanding monetary assets and monetary liabilities denominated in foreign currencies are translated using the closing exchange rate at the reporting date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.



### Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of the provision to be reimbursed, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss, net of reimbursement. If the effect of the time value of money is material, provisions are discounted using the current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

### Contingencies

Contingent liabilities are not recognized in the financial statements but are disclosed in the notes to financial statements unless the 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 position at the reporting date (adjusting events) are reflected in the financial statements. Events after the reporting date that are not adjusting events are disclosed in the notes to financial statements when material.

### Standards Issued but Not Yet Adopted

A number of amendments to standards are effective for annual periods beginning after January 1, 2019. However, the Company has not applied the following relevant and applicable new or amended standards and interpretations in preparing these financial statements. Unless otherwise stated, none of these are expected to have a significant effect on the Company's financial statements.

The Company plans to adopt the following amended standards on the respective effective dates, as applicable.

#### *Effective January 1, 2020*

- *Amendments to References to Conceptual Framework in PFRS Standards* sets out amendments to PFRS Standards, their accompanying documents and PFRS practice statements to reflect the issuance of the revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework). The 2018 Conceptual Framework includes a new chapter on measurement, guidance on reporting financial performance, improved definitions of an asset and a liability and guidance supporting these definitions, and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.



Some Standards, their accompanying documents and PFRS practice statements contain references to, or quotations from, the International Accounting Standards Committee (IASC)'s Framework for the Preparation and Presentation of Financial Statements adopted by the International Accounting Standards Board (IASB) in 2001 or the Conceptual Framework for Financial Reporting issued in 2010. The amendments update some of those references and quotations so that they refer to the 2018 Conceptual Framework, and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

- PAS 1, *Presentation of Financial Statements* and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Material (Amendments)* refine the definition of material. The amended definition of material states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify the definition of material and its application by:
  - (a) raising the threshold at which information becomes material by replacing the term "could influence" with "could reasonably be expected to influence";
  - (b) including the concept of "obscuring information" alongside the concept of "omitting" and "misstating" information in the definition;
  - (c) clarifying that the users to which the definition refers are the primary users of general purpose financial statements referred to in the Conceptual Framework;
  - (d) clarifying the explanatory paragraphs accompanying the definition; and
  - (e) aligning the wording of the definition of material across PFRS Standards and other publications.

The amendments are expected to help entities make better materiality judgments without substantively changing existing requirements.

The amendments apply prospectively. Earlier application is permitted.

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#### 4. Management's Use of Judgments, Accounting Estimates and Assumptions

The preparation of the financial statements in accordance with PFRS requires management to exercise judgments, make accounting estimates and use assumptions that affect reported amounts of assets, liabilities, income and expenses and related disclosures. Future events may occur which will cause the assumptions used in arriving at the accounting estimates to change. The effects of any change in accounting estimates are reflected in the financial statements as they become reasonably determinable.

Accounting judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Revisions are recognized in the period in which the judgments and estimates are revised and in any future period affected.

### Judgments

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

#### *Determination of the Company's Functional Currency*

The Company considers factors, including but not limited to, the currency that mainly influences sales prices of its goods and costs of its products. Based on the economic substance of the underlying circumstances relevant to the Company, the functional currency has been determined to be the Philippine Peso. It is the currency that mainly influences the Company's operations.

#### *Identifying a Lease*

The Company uses its judgment in assessing that a contract is, or contains, a lease when the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company has the right to control the asset if it has the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Company reassesses whether a contract is, or contains, a lease only if the terms and conditions of the contract are changed.

*As a Lessee.* The Company has entered into various contracts for the lease of warehouse space. The Company has determined that it has the right to control the use of the identified assets over their respective lease terms (see Note 19).

#### *Determining Term and Discount Rate of Lease Arrangements*

Where the Company is the lessee, management is required to make judgments about the lease term and the appropriate discount rate to calculate the present value of the lease payments.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases entered into by the Company as lessee, management uses the incremental borrowing rate, being the rate that the Company would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Company uses an approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Company and makes adjustments specific to the lease.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if it is reasonably certain that the lease will be extended (or not terminated) and, as such, included within lease liabilities.

For leases of office space and warehouse, the following factors are usually the most relevant:

- If any leasehold improvements are expected to have a significant remaining value, the Company is typically reasonably certain to extend (or not terminate).
- If there are significant penalties to terminate (or not extend), the Company is typically reasonably certain to extend (or not terminate).
- Otherwise, the Company considers other factors, including historical lease durations, the costs and business disruption required to replace the leased asset, enforceability of the option, and business and other developments.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Company becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and is within the lessee's control, for example, when significant investment in the store is made which has a useful life beyond the current lease term.

#### *Recognition of Revenue*

The Company uses its judgment in determining the timing of the transfer of control on the goods that it delivered. The Company determined that the control is transferred for sale of goods when the Company has transferred physical possession of the goods and obtained the right to payment for the goods which is upon the customer's acceptance of the goods at the customer's warehouse.

#### Accounting Estimates and Assumptions

The key estimates and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below:

#### *Allowance for Impairment Losses on Trade Receivables*

The Company uses the ECL model in estimating the level of allowance which includes forecasts of future events and conditions. A credit loss is measured as the present value of all cash shortfalls (the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive). The model represents a probability-weighted estimate of the difference over the remaining life of the receivables. The maturity of the Company's receivables is less than one year so the lifetime ECLs and the 12-month ECLs are similar. In addition, management assessed that the credit risk for its trade and other receivables and refundable deposits as at the reporting date are low, therefore the Company did not have to assess whether a significant increase in credit risk has occurred. An increase in the allowance for expected credit losses would increase the recorded operating expenses and decrease current assets.

ECLs of refundable deposits has been measured on a 12-month expected credit loss basis. In determining the ECL of refundable deposits, the Company considers the counterparties' financial condition and their capacity to return the amounts due. The Company assessed that the credit risk for the outstanding refundable deposits is low as majority of these are transacted with a counterparty that has a good credit-standing.

The carrying values of trade and other receivables amounted to P498,147,551 and P796,755,289 as at December 31, 2019 and 2018, respectively. As at December 31, 2019 and 2018, the Company's allowance for impairment losses on trade receivables amounted P2,620,922 (see Note 6).

#### *Determination of NRV of Inventories*

The Company's estimates of the NRV of inventories are based on the most reliable evidence available at the time the estimates are made, of the amount that the inventories are expected to be realized. These estimates consider the inventory obsolescence, physical deterioration, fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. A new assessment is made at NRV in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is a clear evidence of an increase in NRV because of changes in economic circumstances, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised NRV.

Management assessed that no allowance to write-down inventories to NRV was necessary as at December 31, 2019 and 2018. The cost of inventories amounted to P599,727,310 and P564,920,108 as at December 31, 2019 and 2018, respectively (see Note 7).

#### *Estimation of Useful Lives of Property and Equipment*

The Company estimates the useful lives of property and equipment based on the period over which the asset is 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 asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible that future financial performance could be materially affected by changes in these estimates brought about by changes in the factors mentioned. Any reduction in the estimated useful lives of the property and equipment would increase depreciation and amortization expense and decrease noncurrent assets.

The estimated useful lives of property and equipment are discussed in Note 3 to financial statements. There is no change in the Company's estimate of useful lives of property and equipment in 2019 and 2018.

The carrying values of property and equipment amounted to P6,540,902 and P7,772,298 as at December 31, 2019 and 2018, respectively. Depreciation and amortization recognized in profit or loss amounted to P3,045,051 and P2,980,754 for the years ended December 31, 2019 and 2018, respectively (see Note 9).

#### *Impairment of Noncurrent Nonfinancial Assets*

The Company assesses at the end of each reporting period whether there is any indication that its noncurrent nonfinancial assets which pertain to investment in an associate, right-of-use assets and property and equipment are impaired. If any such indication exists, the Company estimates the recoverable amount of these assets. Determining the fair value of these noncurrent nonfinancial assets which requires the determination of the future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Company to make estimates and assumptions that can materially affect the financial statements. Future events could cause management to conclude that these assets are impaired. Any resulting impairment loss could have a material adverse impact on the Company's financial position and financial performance. The preparation of the estimated future cash flows involves significant judgment and estimations. While management believes that the assumptions made are appropriate and reasonable, significant changes in management assumptions may materially affect the assessment of recoverable values and may lead to future additional impairment charges under PFRS.

In 2019 and 2018, no impairment loss was recognized on the Company's property and equipment, right-of-use assets and investment in an associate.

The carrying values of property and equipment amounted to P6,540,902 and P7,772,298 as at December 31, 2019 and 2018, respectively (see Note 9).

The carrying values of investment in an associate amounted to P118,193,553 and nil as at December 31, 2019 and 2018, respectively (see Note 10).

The carrying values of right-of-use assets amounted to P4,851,092 and P14,626,093 as at December 31, 2019 and 2018, respectively (see Note 19).

#### *Estimation of Retirement Benefits Liability and Costs*

The cost of defined benefits retirement plans, as well as the present value of the defined benefits obligation, is determined using actuarial valuations. The actuarial valuations involve making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefits obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting period. The Company has retirement benefits liability amounting to P9,203,625 and P6,562,556 as at December 31, 2019 and 2018, respectively (see Note 18).

#### *Recognition of Deferred Income Tax Assets*

The Company reviews its deferred income tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. The Company also reviews the expected timing and tax rates upon reversal of temporary differences and adjusts the impact on deferred income tax accordingly. The Company's assessment on the recognition of deferred income tax assets is based on the forecasted taxable income of the subsequent reporting periods. This forecast is based on the Company's past results and future expectations on revenues and expenses. While the Company believes that its assumptions are appropriate and reasonable, significant changes in these assumptions may materially affect the Company's assessment of the realizability of deferred income tax assets and may lead to future addition to the provision for deferred income tax.

The Company has recognized net deferred income tax assets amounting to P3,705,373 and P3,920,025 as at December 31, 2019 and 2018, respectively (see Note 20).

#### *Provisions and Contingencies*

The Company, in the ordinary course of business, sets up appropriate provisions for certain contractual and regulatory obligations, if any, in accordance with its policies on provisions and contingencies. In recognizing and measuring provisions, management takes risk and uncertainties into account.

The Company has recognized a provision for probable losses amounting to P13,901,018 as at December 31, 2019 and 2018 (see Note 11). Provision for probable losses amounting to nil and P8,153,093 was set up by the Company in 2019 and 2018, respectively (see Notes 11 and 16).



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## 5. Cash

This account consists of:

	<i>Note</i>	2019	2018
Cash on hand		<b>P800,096</b>	P265,065
Cash in banks	21	<b>229,150,415</b>	130,655,881
		<b>P229,950,511</b>	P130,920,946

Cash in banks earns interest at the respective bank deposit rates.

Interest income recognized in profit or loss from bank deposits amounted to P1,398,227 and P354,578 in 2019 and 2018, respectively (see Note 17).

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## 6. Trade and Other Receivables - net

This account consists of:

	<i>Note</i>	2019	2018
Trade:			
Third parties		<b>P291,249,156</b>	P602,432,352
Related parties	12	<b>172,737,750</b>	195,187,171
Less allowance for expected credit losses on trade receivables		<b>(2,620,922)</b>	(2,620,922)
		<b>461,365,984</b>	794,998,601
Nontrade		<b>34,655,267</b>	1,383,336
Others		<b>2,126,300</b>	373,352
	21	<b>P498,147,551</b>	P796,755,289

Trade receivables are unsecured, non-interest-bearing and generally have a 30 to 60 days credit terms.

Nontrade receivables pertain to receivables from suppliers for the reimbursements of expenses made by the Company for brand promotions. These are non-interest-bearing and are generally have a 60 to 90 days credit terms.

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## 7. Inventories

This account consists of:

	<i>Note</i>	2019	2018
Spirits - at cost		<b>P457,894,694</b>	P408,967,051
Wines - at cost		<b>92,171,926</b>	88,056,215
Specialty beverages - at cost		<b>49,660,690</b>	67,896,842
	15	<b>P599,727,310</b>	P564,920,108

In 2019 and 2018, the inventories amounting to P1,348,453,996 and P2,011,404,563, respectively, were recognized as an expense during the year and included in "Cost of goods sold" (see Note 15).



## 8. Prepaid Expenses and Other Current Assets

This account consists of:

	2019	2018
Advances to suppliers	P241,546,226	P360,778,648
Input VAT on imports	4,520,193	13,062,393
Prepaid expenses	1,280,868	900,132
	<b>P247,347,287</b>	<b>P374,741,173</b>

Advances to suppliers pertain to initial down payments made by the Company for purchases of inventories and will be applied against future billings.

## 9. Property and Equipment

The movements and balances in this account are as follows:

	Transportation and Equipment	Furniture and Fixtures	Leasehold Improvements	Machinery and Equipment	Office Equipment	Total
<b>Cost</b>						
December 31, 2017	P17,487,991	P3,917,061	P8,845,801	P2,092,952	P8,771,095	P41,094,900
Additions	721,429	29,821	5,355,440	580,050	487,361	7,274,121
December 31, 2018	18,189,420	3,946,882	14,201,241	2,773,002	9,258,478	48,369,021
Additions	570,000	-	649,531	131,062	483,062	1,813,655
Disposals	(813,000)	-	-	-	-	(813,000)
December 31, 2019	17,946,420	3,946,882	14,850,772	2,904,064	9,721,538	49,369,676
<b>Accumulated Depreciation and Amortization</b>						
December 31, 2017	17,451,220	3,801,888	7,055,792	1,345,107	7,882,164	37,815,969
Depreciation and amortization for the year	74,494	13,037	1,485,650	573,551	834,122	2,960,754
December 31, 2018	17,525,714	3,814,923	8,541,342	1,918,658	8,696,286	40,596,723
Depreciation and amortization for the year	290,372	21,321	1,681,587	520,412	531,359	3,045,051
Disposals	(813,000)	-	-	-	-	(813,000)
December 31, 2019	17,003,086	3,836,044	10,222,929	2,439,070	8,227,645	42,828,774
<b>Carrying Amounts</b>						
December 31, 2018	P663,706	P32,159	P5,659,899	P654,344	P662,190	P7,772,298
December 31, 2019	P943,334	P10,838	P4,627,843	P464,994	P493,893	P6,540,902

Depreciation and amortization expense for the years ended December 31, 2019 and 2018 were charged as part of "Operating expenses" in profit or loss.

## 10. Investment in an Associate

The Company engaged in a Shareholders' Agreement and a Share Purchase Agreement with Pernod Ricard Asia S.A.S and Allied Netherlands B.V. for the purchase of the shares of stocks of Pernod Ricards Philippines, Inc. (Pernod) for EURO 2.10 million (P126.96 million) in February 2019.

Pernod wholesales and distributes distilled spirits. The Company offers neutral spirits and ethyl alcohol used in blended wines and distilled liquors. Pernod serves customers throughout the world. Its principal address is at 4-C Palm Coast Avenue One E-com Center Building, Pasay City, 1300. As at December 31, 2019 the Company owns 30% of Pernod shares.

The movements and balances of the Company's investment in an associate are as follows:

	2019
Acquisition costs	P126,956,404
Share in net loss during the period	(8,762,851)
<b>Net carrying amount</b>	<b>P118,193,553</b>

The following table summarizes the financial information of Pernod and shows the reconciliation of the Company's share in net assets of such investee to the carrying amounts of its investment as of December 31, 2019:

	2019
<b>Percentage ownership interest</b>	<b>30%</b>
Current assets	P823,322,979
Noncurrent assets	193,217,651
Current liabilities	627,083,858
Noncurrent liabilities	40,381,518
<b>Net assets</b>	<b>349,075,254</b>
Company's share of net assets	P104,722,576
Goodwill	13,470,977
<b>Carrying amount of investment in an associate</b>	<b>P118,193,553</b>
Revenue	P1,339,369,395
Net loss/total comprehensive loss	(29,209,504)
<b>Company's share in net loss (30%)</b>	<b>(P8,762,851)</b>

#### 11. Trade and Other Payables

This account consists of:

	Note	2019	2018 (As restated - Note 24)
Trade payables to third parties		P103,214,594	P152,268,905
Nontrade:			
Related parties	12	948,310	12,509,003
Third parties		7,423,349	17,110,571
Accrued expenses		22,197,936	19,212,625
Provision		13,901,018	13,901,018
Payables to government agencies		1,288,898	2,296,076
	21	<b>P148,974,105</b>	<b>P217,298,198</b>

Trade payables are non-interest-bearing and generally have a 30 to 60 days credit terms.

Nontrade payables are amounts owed to nontrade suppliers such as manpower agencies, freight companies and other nontrade transactions. These are non-interest-bearing and generally have a 30 to 60 days credit terms. These also include interest on advances from Parent Company.

Accrued expenses consist mainly of accruals for warehousing, salaries and wages, utilities, importation charges and other operating expenses.

The Company sets-up a provision for any probable liabilities that may arise as a result of conducting its business. The disclosures of additional details beyond the present disclosures may prejudice the Company's position with respect to these matters. Thus, as allowed by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, only a general description is provided.

The movements and balances of provisions as at and for the years ended December 31 are as follows:

	<i>Note</i>	2019	2018
Balances at beginning of year		P13,901,018	P5,747,925
Provision during the year	16	-	8,153,093
Balances at end of year		P13,901,018	P13,901,018

## 12. Related Party Transactions

Transactions and account balances with related parties as at and for the years ended December 31 are as follows:

Category	Year	Note	Transactions During the Year	Outstanding Balance		Terms	Conditions
				Trade Receivables	Amounts Owed to Related Parties		
<b>Parent Company</b>							
• Advances	2019	a	P -	P -	P -	Payable on demand	Unsecured
	2018		-	-	105,000,000		
• Interest expense	2019	a, 11, 17	1,062,292	-	787,500	Payable on demand	Unsecured
	2018		3,315,599	-	4,103,099		
• Management fee	2019	b	-	-	106,700,000	Due and demandable non-interest-bearing	Unsecured
	2018		-	-	106,700,000		
<b>Entities under Common Control</b>							
• Advances	2019	c	151,618	-	85,151,618	Payable on demand; non-interest-bearing	Unsecured
	2018		-	-	85,000,300		
• Sales of goods	2019	d, 6	519,081,156	172,737,750	-	30 to 60-day credit term; non-interest-bearing	Unsecured; no impairment
	2018		533,787,615	195,187,171	-		
• Lease liability	2019	e, 19	2,284,448	-	3,683,860	Payable on a monthly basis	Unsecured
	2018		2,234,447	-	5,978,308		
• Reimbursement of expenses	2019	f, 11	160,810	-	160,810	Payable on demand;	Unsecured
	2018		8,405,904	-	8,405,904	non-interest-bearing	
<b>TOTAL</b>	<b>2019</b>			<b>P172,737,750</b>	<b>P197,493,768</b>		
<b>TOTAL</b>	<b>2018</b>			<b>P195,187,171</b>	<b>P318,187,211</b>		

- Cash advances extended from its Parent Company in the form of promissory note. These advances earn annual interest rate of 4.5% and 3.25% for 2019 and 2018, respectively with maturities of two (2) years. Full payment was made in 2019.
- This pertains to amount due to the Parent Company for corporate services rendered in 2017 and 2016.
- These are cash advances from an entity under common control for additional working capital requirements.
- In the normal course of business, the Company distributes wines and liquors to entities under common control (see Note 6).

- e. The Company entered into lease agreements with an entity under common control for its office space and warehouse. Lease expenses include amortization expense on right-of-use assets and interest expense on lease liabilities (see Note 19).
- f. This represents advances from officers and related parties in the form of reimbursement of expenses and working capital advances.
- g. The compensation of the key management personnel of the Company, by benefit type, follows:

	2019	2018
Short-term employee benefits	P4,215,415	P3,716,838
Retirement benefits cost	111,204	110,009
	<b>P4,326,619</b>	<b>P3,826,847</b>

As at December 31, 2019 and 2018, amounts owed to related parties are presented as follows:

	<i>Note</i>	2019	2018
Trade and other payables	11	P948,310	P12,509,003
Lease liabilities	19	3,693,860	5,978,308
Due to related parties		<b>192,851,618</b>	297,700,000
		<b>P197,493,788</b>	<b>P316,187,311</b>

### 13. Loan Payable

This account pertains to unsecured, peso-denominated loans obtained from a local bank with maturity of 90 days with annual interest rate of 5.875% and 3.00% in 2019 and 2018. This loan is intended to finance the inventory build-up and additional working capital requirements of the Company.

This loan is not subject to compliance with any loan covenant.

Interest expenses recognized in profit or loss relating to loan payable amounted to P23,302,000 and P16,224,251 for the years ended December 31, 2019 and 2018, respectively (see Notes 17 and 23).

### 14. Equity

#### Retained Earnings

On December 11, 2015, the Company's BOD approved the declaration of cash dividends amounting to P100 million, payable to stockholders of record as at the same date. The management is planning to settle in 2021 the dividends payable as at December 31, 2019.

Stock corporations are prohibited from retaining surplus profits in excess of one hundred (100%) percent of their paid-in capital stock, except:

- a. when justified by definite corporate expansion projects or programs approved by the BODs; or

- b. when the corporation is prohibited under any loan agreement with any financial institutions or creditors, whether local or foreign, from declaring dividends without their consent, and such consent has not yet been secured; or
- c. when it can be clearly shown that such retention is necessary under special circumstances of the corporation, such as when there is a need for special reserve for probable contingencies.

As at December 31, 2019, the Company has retained earnings in excess of its paid-up capital. The Company is planning to apply for an increase in the authorized capital stock of the Company with the SEC in 2020 or 2021 to address the excess retained earnings.

#### 15. Cost of Goods Sold

This account consists of:

	Note	2019	2018
Inventory at beginning of year		P564,920,108	P694,796,560
Net purchases during the year		1,383,261,198	1,881,528,111
Cost of goods available for sale		1,948,181,306	2,576,324,671
Inventory at end of year	7	(599,727,310)	(564,920,108)
		P1,348,453,996	P2,011,404,563

#### 16. Operating Expenses

This account consists of:

	Note	2019	2018 (As restated - Note 24)
Advertising		P61,591,647	P140,094,281
Salaries, wages and other employee benefits	18	43,970,386	42,742,510
Warehousing and delivery		26,075,964	47,935,715
Depreciation and amortization	9, 19	12,820,052	12,434,257
Taxes and licenses		5,442,298	3,985,973
Utilities		2,239,733	3,521,377
Insurance		1,787,795	2,123,012
Transportation and travel		1,120,676	1,715,796
Janitorial services		742,622	1,337,530
Representation		728,252	1,403,849
Office supplies		668,445	939,138
Repair and maintenance		226,192	739,313
Professional fees		202,520	530,246
Provision for probable loss	11	-	8,153,093
Miscellaneous		789,725	1,568,956
		P158,406,307	P269,225,046



## 17. Other Charges - net

This account consists of:

	Note	2019	2018 (As restated - Note 24)
Interest expense	12, 13, 19, 23	(P24,951,433)	(P20,337,987)
Foreign exchange gain (loss) - net	21	3,683,336	(1,044,792)
Interest income	5	1,398,227	354,578
Bank charges		(864,601)	(397,461)
Others - net		160,714	-
		<b>(P20,573,757)</b>	<b>(P21,425,662)</b>

## 18. Retirement Benefits Liability

The Company has an unfunded, non-contributory, defined benefits retirement plan covering all of its regular and full-time employees. Costs are determined in accordance with the actuarial studies made for the plan. Under the plan, the employees are entitled to retirement benefits equivalent to an amount computed based on Republic Act No. 7641, *Retirement Pay Law*, equivalent to one-half month's salary for every year of service, with six (6) months or more of service considered as one year.

The succeeding table summarizes the components of retirement benefits cost under a defined benefits retirement plan recognized in profit or loss and the amount of retirement benefits liability recognized in the statements of financial position. Annual cost is determined using the projected unit credit method. The Company's latest actuarial valuation date is December 31, 2019.

The table below shows the present value of the defined benefits retirement obligation/ retirement benefits liability and its components as at December 31:

	2019	2018
<b>Balance at beginning of year</b>	<b>P6,562,556</b>	<b>P14,233,985</b>
<b>Recognized in Profit or Loss</b>		
Current service cost	637,948	581,737
Interest expense	492,192	765,789
	<b>1,130,140</b>	<b>1,347,526</b>
<b>Included in Other Comprehensive Income</b>		
Actuarial loss (gain) arising from:		
Financial assumptions	1,539,531	(3,614,998)
Experience adjustments	(28,602)	830,744
Demographic assumptions	-	(6,234,701)
	<b>1,510,929</b>	<b>(9,018,955)</b>
<b>Balance at end of year</b>	<b>P9,203,625</b>	<b>P6,562,556</b>

The retirement benefits costs is recognized as part of "Salaries, wages, and other employee benefits" under "Operating expenses" in profit or loss (see Note 16).



The plan exposes the Company to actuarial risks such as interest rate risk, longevity risk and salary risk as follows:

*Interest Risk*

The present value of the defined benefits obligation is calculated using a discount rate determined by reference to market yields to government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation.

*Longevity and Salary Risks*

The present value of the defined benefits obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

The principal actuarial assumptions (in percentages) as at December 31 used to determine retirement benefits liability are as follows:

	2019	2018
Discount rate	5.18%	7.50%
Salary increase rate	8.00%	8.00%

Assumptions for mortality and disability rates are based on published statistics and mortality and disability tables.

The weighted average duration of the benefit payments is approximately 8.4 years and 7.7 years as at December 31, 2019 and 2018, respectively.

Sensitivity Analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefits obligation by the amounts shown below:

	2019		2018	
	Defined Benefits Obligation 1 Percent Increase	Defined Benefits Obligation 1 Percent Decrease	Defined Benefits Obligation 1 Percent Increase	Defined Benefits Obligation 1 Percent Decrease
Discount rate	(P720,182)	P823,851	(P476,084)	P535,575
Future salary growth	793,010	(708,698)	527,757	(478,187)

Although the analysis does not take into account the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumption shown.

It should be noted that in the event a benefit claim arises under that plan, the benefits shall be due and payable from the Company.

Funding Arrangements

The plan is unfunded and non-contributory. Benefit claims under the defined benefits retirement obligation are paid directly by the Company when they become due.

Asset-liability Matching

The Company does not perform any ALM study. The Company has no plan assets to match against liabilities under the retirement plan.

Maturity analysis of the benefit payments as at December 31 follow:

Defined Benefits Obligation	Carrying Amount	Contractual Cash Flows	Within 1 Year	Within 1-5 Years	More than 5 Years
2019	P9,203,625	P10,698,659	P -	P4,383,215	P6,315,444
2018	P8,662,556	P10,040,406	P -	P708,262	P9,332,144

## 19. Lease Agreements

The significant lease agreements entered into by the Company are as follows:

- The Company leases from an entity under common control its office space with total area of 408.5 square meters for a term of three (3) years until July 15, 2018, renewable under terms and condition agreed upon by both parties. This lease agreement was subsequently renewed for three (3) years from July 16, 2018 to July 16, 2021 (see Note 12).
- On February 20, 2015, the Company entered into a lease agreement with a third party for a covered warehouse and office building located at 3270 Gasanco Compound, Merville Annex Road, Pasay City for a term of five (5) years from April 1, 2015 to March 31, 2020, renewable upon agreement by both parties. Escalation rate is 5% starting second year and 10% starting fourth year.

The lease agreements provide for, among others, security deposits amounting to P3,203,153 and P2,807,854 as at December 31, 2019 and 2018, respectively, which are shown as "Refundable deposits" in the statements of financial position.

On transition to PFRS 16, the Company recognized right-of-use assets in relation to the lease agreements (a) and (b). As at January 1, 2018, the right-of-use assets and lease liabilities recognized amounted to P16,973,987 and P20,068,702, respectively.

The movement of the right-of-use assets and lease liabilities for the years ended December 31, 2019 and 2018 are as follows:

### i. Right-of-Use Assets

	Note	2019	2018 (As restated - see Note 24)
Balance at beginning of year		P14,626,093	P16,973,987
Additions		-	7,105,609
Amortization charge for the year	16	(9,775,001)	(9,453,503)
Balance at end of year		P4,851,092	P14,626,093

ii. Lease Liabilities

	Note	2019	2018 (As restated - see Note 24)
Balance at beginning of year		P17,526,134	P20,068,702
Additions		-	7,105,609
Interest charge for the year	17	587,141	798,137
Payments made:			
Principal portion of lease liabilities	23	(10,833,018)	(9,648,177)
Interest expense	23	(587,141)	(798,137)
<b>Balance at end of year</b>		<b>P6,693,116</b>	<b>P17,526,134</b>

Maturity analyses of the undiscounted lease liabilities as at December 31, 2019 and 2018 are as follows:

	Undiscounted Lease Payments	Interest	Present Value of Lease Liabilities
Not later than one year	P5,596,124	P171,360	P5,424,764
Later than one year but not later than five years	1,290,665	22,313	1,268,352
<b>Balance at December 31, 2019</b>	<b>P6,886,789</b>	<b>P193,673</b>	<b>P6,693,116</b>

	Undiscounted Lease Payments	Interest	Present Value of Lease Liabilities
Not later than one year	P11,449,597	P616,579	P10,833,018
Later than one year but not later than five years	6,886,789	193,673	6,693,116
<b>Balance at December 31, 2018</b>	<b>P18,336,386</b>	<b>P810,252</b>	<b>P17,526,134</b>

The Company's lease liabilities classified in the statements of financial position are as follows:

	2019	2018 (As restated - see Note 24)	2017 (As restated - see Note 24)
Current	P5,424,764	P10,833,018	P8,520,876
Noncurrent	1,268,352	6,693,116	11,547,826
	<b>P6,693,116</b>	<b>P17,526,134</b>	<b>P20,068,702</b>

iii. Amounts Recognized in Profit or Loss

	Note	2019	2018 (As restated - see Note 24)
Amortization expense	16	P9,775,001	P9,453,503
Interest on lease liabilities	17	587,141	798,137
		<b>P10,362,142</b>	<b>P10,251,640</b>

iv. Amounts Recognized in the Statements of Cash Flows

	2019	2018 (As restated - see Note 24)
Total cash outflows for leases	P11,420,159	P10,446,314

20. Income Taxes

The components of provision for income tax are shown below:

	2019	2018
Current	P19,139,647	P14,611,436
Deferred	667,930	(418,143)
	<b>P19,807,577</b>	<b>P14,193,293</b>

Current provision for income tax represents regular corporate income tax in 2019 and 2018.

The reconciliation of the provision for income tax computed at the statutory income tax rate and the provision for income tax shown in profit or loss for the years ended December 31 is as follows:

	2019	2018
Income before income tax	P66,846,716	P66,525,619
Provision for income tax computed at statutory income tax rate of 30%	P20,054,015	P19,957,686
Additions to (reductions in) income taxes resulting from the tax effects of:		
Interest income subjected to final tax	(419,468)	(106,373)
Other adjustments	173,030	(5,658,020)
Provision for income tax	<b>P19,807,577</b>	<b>P14,193,293</b>

The components of the Company's net deferred income tax assets are as follows:

	2019	2018
Retirement benefits liability	P2,761,087	P1,968,767
Effect of PFRS 16	552,608	870,013
Allowance for expected credit losses on trade receivables	786,277	786,277
Unrealized foreign exchange loss (gain)	(394,599)	294,968
	<b>P3,705,373</b>	<b>P3,920,025</b>

The movements of net deferred income tax assets are accounted for as follows:

	2019	2018
Amount charged to profit or loss	(P667,930)	P418,143
Amount charged to OCI relating to remeasurement on retirement benefits	453,278	(2,705,687)
Net decrease in deferred income tax assets	<b>(P214,652)</b>	<b>(P2,287,544)</b>

## 21. Financial Risk and Capital Management Objectives and Policies

### Objectives and Policies

The Company's BOD has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's financial instruments comprise of cash in banks, trade and other receivables, refundable deposits, trade and other payables, due to related parties, loan payable and dividend payable.

The Company's financial instruments comprise of cash in banks, trade and other receivables, refundable deposits, trade and other payables, due to related parties, loan payable and dividend payable.

The main objectives of the Company's financial risk management are as follows:

- to identify and monitor such risks on an ongoing basis;
- to minimize and mitigate such risks; and
- to provide a degree of certainty about costs.

The Company's finance and treasury functions operate as a centralized service for managing financial risks and activities as well as providing optimum investment yield and cost-efficient funding for the Company.

The Company has exposure to the following risks from its use of financial instruments:

- Credit Risk
- Liquidity Risk
- Market Risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risks, and the Company's management of capital.

There were no changes in the exposures to each of the above risks and to the Company's objectives, policies and processes for measuring and managing the risk from the previous period. The policies for managing specific risks are summarized below:

### Credit Risk

Credit risk represents the risk of loss the Company would incur if credit customers and counterparties fail to perform their contractual obligations. The Company's credit risk arises from the Company's use of its financial assets. Credit risk management involves entering into financial transactions only with counterparties with acceptable credit rating.

The carrying amount of financial assets represents the maximum credit exposure to credit risk as at December 31 as follows:

	<i>Note</i>	<b>2019</b>	<b>2018</b>
Cash in banks	5	<b>P229,150,415</b>	P130,655,881
Trade and other receivables - net	6	<b>498,147,551</b>	796,755,289
Refundable deposits	19	<b>3,203,153</b>	2,807,854
		<b>P730,501,119</b>	P930,219,024



As at December 31, 2019 and 2018, the aging per class of financial assets is as follows:

	Neither Past Due nor Impaired	Past Due but not Impaired			Impaired	Total
		1 to 30 Days	31 to 60 Days	More than 60 Days		
Cash in banks	P229,150,415	P -	P -	P -	P -	P229,150,415
Trade and other receivables	294,771,165	118,822,452	35,351,475	49,402,459	2,620,922	500,768,473
Refundable deposits	3,203,153	-	-	-	-	3,203,153
	P527,124,733	P118,622,452	P35,351,475	P49,402,459	P2,620,922	P733,122,041

	Neither Past Due nor Impaired	Past Due but not Impaired			Impaired	Total
		1 to 30 Days	31 to 60 Days	More than 60 Days		
Cash in banks	P130,655,881	P -	P -	P -	P -	P130,655,881
Trade and other receivables	504,681,127	121,565,128	47,812,232	122,696,802	2,620,922	799,378,211
Refundable deposits	2,807,854	-	-	-	-	2,807,854
	P638,144,862	P121,565,128	P47,812,232	P122,696,802	P2,620,922	P932,639,946

Based on the historical default rates, the Company believes that other than the specifically impaired trade and other receivables, no additional allowance for expected credit losses is necessary in respect of trade and other receivables that are past due but not impaired because such accounts relate to customers that have good payment records with the Company. On the other hand, the Company believes that no expected credit loss is necessary in respect of other financial assets since they are neither past due nor impaired.

The Company's policy is to enter into transactions with a diversity of credit worthy parties to mitigate any significant concentration of credit risk. There is no significant concentration of credit risk within the Company.

As at December 31, 2019 and 2018, the Company does not expect any counterparty, other than trade customers, to fail in meeting its obligations, thus, related risk is deemed to be insignificant.

#### *Credit Quality*

In monitoring and controlling credit extended to counterparty, the Company adopts a comprehensive credit rating system based on financial and non-financial assessments of its customers. Financial factors being considered comprised of the financial standing of the customer while the nonfinancial aspects include but are not limited to the assessment of the customer's nature of business, management profile, industry background, payment habit and both present and potential business dealings with the Company.

The credit quality of the Company's financial assets that are neither past due nor impaired as at December 31, 2019 and 2018 are as follows:

	December 31, 2019			Total
	High Grade	Standard Grade	Substandard Grade	
Cash in banks	P229,150,415	P -	P -	P229,150,415
Trade and other receivables	-	294,771,165	-	294,771,165
Refundable deposits	-	3,203,153	-	3,203,153
	P229,150,415	P297,974,318	P -	P527,124,733



	December 31, 2018			Total
	High Grade	Standard Grade	Substandard Grade	
Cash in banks	P130,655,881	P -	P -	P130,655,881
Trade and other receivables	-	504,681,127	-	504,681,127
Refundable deposits	-	2,807,854	-	2,807,854
	P130,655,881	P507,488,981	P -	P638,144,862

The Company assessed the credit quality of the financial assets that are neither past due nor impaired as follows:

- Cash in banks were assessed as high grade since these are deposited in reputable banks with a good credit standing, which have a low probability of insolvency and can be withdrawn anytime. The credit quality of these financial assets is considered to be high grade.
- High grade trade and other receivables pertain to those receivables from customers who consistently pay before the maturity date. Standard grade trade and other receivables include those 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 Company made a persistent effort to collect them are included under substandard grade receivables.
- Standard grade for refundable deposits pertains to unsecured rental deposit related to the Company's lease commitment.

#### *ECL Assessment*

The Company allocates each exposure to a credit risk on data that are determined to be predictive of the risk of loss (including but not limited to external ratings, audited financial assets, management accounts and cash flow projections and available press information about customers) and applying expected credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default.

In measuring the expected credit losses, trade and other receivables have been assessed on a collective basis as they pose shared credit risk characteristics. They have been grouped based on the days past due.

The following table provides information about the exposure to credit risk for trade and other receivables as at December 31, 2019 and 2018:

	December 31, 2019		
	Gross Carrying Amount	Expected Credit Loss Allowance	Credit-impaired
Current (not past due)	P294,771,165	P -	No
1-30 days past due	118,622,452	-	No
31-60 days past due	35,351,475	-	No
61-90 days past due	13,818,532	-	No
91-180 days past due	11,747,312	-	No
181-360 days past due	22,991,644	-	No
More than 360 days past due	3,465,893	2,620,922	Yes
	P500,768,473	P2,620,922	

	December 31, 2018		
	Gross Carrying Amount	Expected Credit Loss Allowance	Credit- impaired
Current (not past due)	P504,681,127	P -	No
1-30 days past due	121,565,128	-	No
31-60 days past due	47,812,232	-	No
61-90 days past due	34,833,626	-	No
91-180 days past due	29,149,660	-	No
181-360 days past due	38,807,876	-	No
More than 360 days past due	22,526,562	2,620,922	Yes
	<b>P799,376,211</b>	<b>P2,620,922</b>	

The Company applies the simplified approach in providing for expected credit losses prescribed by PFRS 9, which permits the use of the lifetime expected loss provision and applies a provision matrix.

The maturity of the Company's receivables is less than one year so the lifetime expected credit losses and the 12-month expected credit losses are similar.

Exposures within each credit risk grade are assessed based on delinquency and actual credit loss experience. The Company considered both historical loss rate and forward-looking assumptions. The Company assessed that the impact of forward-looking assumptions is immaterial.

#### Liquidity Risk

The following are the contractual maturities of financial assets and financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

	As at December 31, 2019			
	Carrying Amount	Contractual Cash Flows	Within 1 Year	1 to 5 Years
<b>Financial Assets</b>				
Cash in banks	P229,150,415	P229,150,415	P229,150,415	P -
Trade and other receivables - net	498,147,551	498,147,551	498,147,551	-
Refundable deposits	3,203,153	3,203,153	-	3,203,153
	<b>P730,501,119</b>	<b>P730,501,119</b>	<b>P727,297,966</b>	<b>P3,203,153</b>

	As at December 31, 2019			
	Carrying Amount	Contractual Cash Flows	Within 1 Year	1 to 5 Years
<b>Financial Liabilities</b>				
Trade and other payables*	P133,784,189	P133,784,189	P133,784,189	P -
Loan payable	313,000,000	314,852,377	314,852,377	-
Due to related parties	192,851,618	193,913,910	193,913,910	-
Dividend payable	100,000,000	100,000,000	100,000,000	-
Lease liabilities	6,693,116	6,886,789	5,596,124	1,290,665
	<b>P746,328,923</b>	<b>P749,437,265</b>	<b>P748,146,600</b>	<b>P1,290,665</b>

\*Excluding payables to government agencies and provision.

	As at December 31, 2018			
	Carrying Amount	Contractual Cash Flows	Within 1 Year	1 to 5 Years
<b>Financial Assets</b>				
Cash in banks	P130,655,881	P130,655,881	P130,655,881	P -
Trade and other receivables - net	796,755,289	796,755,289	796,755,289	-
Refundable deposits	2,807,854	2,807,854	-	2,807,854
	P930,219,024	P930,219,024	P927,411,170	P2,807,854

	As at December 31, 2018			
	Carrying Amount	Contractual Cash Flows	Within 1 Year	1 to 5 Years
<b>Financial Liabilities</b>				
Trade and other payables*	P201,101,104	P201,101,104	P201,101,104	P -
Loan payable	357,000,000	359,782,767	359,782,767	-
Due to related parties	297,700,000	301,015,599	301,015,599	-
Dividend payable	100,000,000	100,000,000	100,000,000	-
Lease liabilities	17,526,134	18,336,386	11,449,597	6,886,789
	P973,327,238	P980,235,856	P973,349,067	P6,886,789

\*Excluding payables to government agencies and provision.

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

#### Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and other market prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. The Company is subject to foreign currency risk.

#### Foreign Currency Risk

The Company's foreign currency denominated assets and liabilities as at December 31, 2019 and 2018 are as follows:

Currency	As at December 31, 2019				
	Financial Assets	Financial Liabilities	Net Foreign Currency Liabilities	Exchange Rate	PHP Equivalent
USD	-	1,674,832	(1,674,832)	50.74	(84,980,976)
EUR	-	439,285	(439,285)	56.35	(24,753,710)
AUD	-	434,133	(434,133)	35.26	(15,307,530)
GBP	791	-	791	65.99	52,198
					(124,990,018)

Currency	As at December 31, 2018				
	Financial Assets	Financial Liabilities	Net Foreign Currency Liabilities	Exchange Rate	PHP Equivalent
USD	-	437,722	(437,722)	52.72	(23,076,704)
GBP	-	8,318	(8,318)	66.73	(555,060)
					(23,631,764)

Net foreign exchange gain recognized in profit or loss amounted to P3,683,336 for the year ended December 31, 2019 and net foreign exchange loss recognized in profit or loss amounted to P1,044,792 for the year ended December 31, 2018 (see Note 17).

*Sensitivity Analysis*

The following table demonstrates sensitivity of cash flows due to changes in foreign exchange rates with all variables held constant.

	December 31, 2019	
	Percentage Increase in Foreign Exchange Rates	Effect in Income after Income Tax
USD	3.76%	P2,236,699 decrease
EUR	6.57%	1,138,423 decrease
AUD	4.88%	522,905 decrease
GRB	1.11%	406 decrease

	December 31, 2018	
	Percentage Increase in Foreign Exchange Rates	Effect in Income after Income Tax
USD	6%	P902,640 decrease
GRB	0.58%	2,237 decrease

Changes in foreign exchange rates are based on the average of the banks' forecasted closing exchange rates during the first quarter of the following calendar year. A movement in the opposite direction would increase/decrease income before income tax by the same amount, on the basis that all other variables remains constant.

Capital Management

The Company's objectives, when managing capital, are to increase the value of stockholders' investment and maintain high growth by applying free cash flows to selective investments that would further the Company's worth. The Company sets strategies with the objective of establishing a versatile and resourceful financial management and capital structure.

The Company defines capital as paid-in capital stock, additional paid-in capital and retained earnings. Other components of equity are excluded from capital for purposes of capital management. Profiles for capital ratios are set in the light of changes in the Company's external environment and the risks underlying the Company's business operations and industry.

The Company is not subject to externally-imposed capital requirements.

**22. Fair Values of Financial Instruments**

*Cash, Trade and Other Receivables, Trade and Other Payables and Dividends Payable*

The carrying amounts of the Company's cash, trade and other receivables, trade and other payables (excluding provision and payables to government agencies) and dividends payable approximate their fair values due to the short-term maturities of these financial instruments.

#### *Refundable Deposits*

The carrying amount of refundable deposit approximates its fair values as the impact of discounting is not significant.

#### *Loan Payable and Due to Related Parties*

The estimated fair values of loan payable and due to related parties are based on the present value of expected future cash flows using the applicable market rates for similar types of loans at reporting date. The difference between the carrying amount and fair value of loan payable and due to related parties is considered immaterial by management.

#### *Lease Liabilities*

The fair value of lease liabilities is based on the prevailing market rates for similar instruments.

The carrying amounts and estimated fair values of the Company's financial assets and financial liabilities as at December 31, 2019 and 2018 are presented below:

	2019		2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial Assets</b>				
Cash	P229,950,511	P229,950,511	P130,920,946	P130,920,946
Trade and other receivables - net	498,147,551	498,147,551	796,755,289	796,755,289
Refundable deposits	3,203,153	3,195,001	2,807,854	2,800,706
	P731,301,215	P731,293,063	P930,484,089	P930,476,941

	2019		2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Other Financial Liabilities</b>				
Trade and other payables	P133,784,189	P133,784,189	P201,101,104	P201,101,104
Due to related parties	192,851,618	193,913,910	297,700,000	301,015,599
Loan payable	313,000,000	314,852,377	357,000,000	359,782,767
Dividends payable	100,000,000	100,000,000	100,000,000	100,000,000
Lease liabilities	6,893,116	6,767,071	17,526,134	17,266,698
	P746,328,923	P749,317,547	P973,327,238	P979,166,168



### 23. Reconciliation Between the Opening and Closing Balances for Liabilities Arising from Financing Activities

The reconciliation of movements of liabilities to cash flows arising from financing activities in 2019 and 2018 are as follow:

December 31, 2019	Loan Payable	Accrued Interest	Lease Liabilities	Due to Related Parties	Total
Balances at beginning of year	P357,000,000	P4,103,099	P17,526,134	P297,700,000	P676,329,233
<b>Cashflows from Financing Activities</b>					
Payments of:					
Loan payable	(170,000,000)	-	-	-	(170,000,000)
Advances from related parties	-	-	-	(104,848,352)	(104,848,352)
Lease liabilities	-	-	(10,833,018)	-	(10,833,018)
Interest	(23,302,000)	(4,377,891)	(587,141)	-	(28,267,032)
Proceeds from availment of loan payable	126,000,000	-	-	-	126,000,000
Interest expense	23,302,000	1,062,292	587,141	-	24,951,433
	P313,000,000	P787,500	P8,693,116	P192,851,818	P513,332,234

December 31, 2018	Loan Payable	Accrued Interest	Lease Liabilities	Due to Related Parties	Total
Balances at beginning of year	P50,000,000	P787,500	P20,068,702	P297,700,000	P368,556,202
<b>Cashflows from Financing Activities</b>					
Payments of:					
Loan payable	(130,000,000)	-	-	-	(130,000,000)
Advances from related parties	-	-	-	-	-
Lease liabilities	-	-	(9,648,177)	-	(9,648,177)
Interest	(16,224,251)	-	(798,137)	-	(17,022,388)
Proceeds from availment of loan payable	437,000,000	-	-	-	437,000,000
Interest expense	16,224,251	3,315,599	798,137	-	20,337,987
Additions to lease liabilities	-	-	7,105,609	-	7,105,609
	P357,000,000	P4,103,099	P17,526,134	P297,700,000	P676,329,233



## 24. Prior Period Restatements

The Company restated its statements of financial position as at December 31, 2018 and January 1, 2018 and its statement of comprehensive income for the year ended December 31, 2018 in accordance with PAS 8 to recognize the required asset and obligation under PFRS 16 (see Note 3). These restatements have material impact on the statement of financial position and the statement of comprehensive income as at the beginning of the earliest period presented. The following tables summarize the impacts on the Company's financial statements.

December 31, 2018	As Previously Reported	Adjustments	As Restated
<b>Statement of Financial Position</b>			
Right-of-use assets - net	P -	P14,626,093	P14,626,093
Deferred income tax assets	3,050,013	870,012	3,920,025
Others	1,877,917,668	-	1,877,917,668
<b>Total Assets</b>	<b>P1,880,967,681</b>	<b>P15,496,105</b>	<b>P1,896,463,786</b>
Lease liabilities - current portion	P -	P10,833,018	P10,833,018
Lease liabilities - net of current portion	-	6,693,116	6,693,116
Trade and other payables	218,924,769	(1,626,571)	217,298,198
Others	766,889,268	-	766,889,268
<b>Total Liabilities</b>	<b>P985,814,037</b>	<b>P15,899,563</b>	<b>P1,001,713,600</b>
Retained earnings	P737,675,237	(P403,458)	P737,271,779
Others	157,478,407	-	157,478,407
<b>Total Equity</b>	<b>P895,153,644</b>	<b>(P403,458)</b>	<b>P894,750,186</b>
<b>Statement of Comprehensive Income</b>			
Net sales	(P2,368,580,890)	P -	(P2,368,580,890)
Cost of goods sold	2,011,404,563	-	2,011,404,563
Operating expenses	270,211,131	(986,085)	269,225,046
Other charges - net	20,627,525	798,137	21,425,662
Provision for income tax	14,134,891	58,402	14,193,293
<b>Net Income</b>	<b>(P52,202,780)</b>	<b>(P129,546)</b>	<b>(P52,332,326)</b>
<b>Total Comprehensive Income</b>	<b>(P58,516,048)</b>	<b>(P129,546)</b>	<b>(P58,645,594)</b>

December 31, 2018	As Previously Reported	Adjustments	As Restated
<b>Statement of Cash Flows</b>			
<i>Operating Activities</i>			
Income before income tax	P66,337,671	P187,948	P66,525,619
Adjustments for:			
Interest expense	19,539,850	798,137	20,337,987
Provision for probable loss	8,153,093	-	8,153,093
Depreciation and amortization	2,980,754	9,453,503	12,434,257
Retirement benefits costs	1,347,526	-	1,347,526
Unrealized foreign exchange loss	983,228	-	983,228
Interest income	(354,578)	-	(354,578)
Operating income before working capital changes	98,987,544	10,439,588	109,427,132
Decrease (increase) in:			
Trade and other receivables - net	(34,770,964)	-	(34,770,964)
Inventories	129,876,452	-	129,876,452
Prepaid expenses and other current assets	(307,590,998)	-	(307,590,998)
Refundable deposits	(485,734)	-	(485,734)
Increase (decrease) in:			
Trade and other payables	(79,540,138)	6,726	(79,533,412)
Cash used in operations	(193,523,838)	10,446,314	(183,077,524)
Income taxes paid	(33,351,153)	-	(33,351,153)
Interest paid	(16,224,251)	(798,137)	(17,022,388)
Interest received	354,578	-	354,578
Net cash used in operating activities	(P242,744,664)	P9,648,177	(P233,096,487)
<b>Investing Activity</b>			
Additions to property and equipment	(P7,274,121)	P -	(P7,274,121)
<b>Financing Activities</b>			
Proceeds from availment of loan payable	P437,000,000	P -	P437,000,000
Payments on loan payable	(130,000,000)	-	(130,000,000)
Payments of lease liabilities	-	(9,648,177)	(9,648,177)
Net cash from financing activities	P307,000,000	(P9,648,177)	P297,351,823
<b>January 1, 2018</b>			
<b>Statement of Financial Position</b>			
Right-of-use assets - net	P -	P16,973,987	P16,973,987
Deferred income tax assets	5,279,156	928,413	6,207,569
Others	1,603,671,842	-	1,603,671,842
Total Assets	P1,608,950,998	P17,902,400	P1,626,853,398
Lease liabilities - current portion	P -	P8,520,876	P8,520,876
Lease liabilities - net of current portion	-	11,547,826	11,547,826
Trade and other payables	286,012,987	(1,633,298)	284,379,689
Others	486,300,415	-	486,300,415
Total Liabilities	P772,313,402	P18,435,404	P790,748,806
Retained earnings	P685,472,457	(P533,004)	P684,939,453
Others	151,165,139	-	151,165,139
Total Equity	P836,637,596	(P533,004)	P836,104,592

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## 25. Subsequent Events

On March 8, 2020, under Proclamation 922, the President of the Philippines (the "President") has declared a state of public health emergency due to the spread of the Corona Virus Disease 2019 (COVID-19) in the country. Subsequently on March 16, 2020, under Proclamation 929, the previously declared state of public health emergency was upgraded into a state of calamity. To manage the spread of the COVID-19, the entire Luzon has been placed under an Enhanced Community Quarantine (ECQ), effective from March 17, 2020 until April 12, 2020, which was further extended to May 15, 2020. During the ECQ, a strict home quarantine is implemented in all households; all public transportations were suspended, provision for food and essential health services is regulated and the presence of uniformed military personnel to enforce quarantine procedures is heightened. Liquor bans have also been implemented in several areas under ECQ wherein drinking alcoholic beverages in public areas is prohibited and retail stores are only allowed to sell the same during a limited time in the day. On May 16, 2020 onwards, the Philippine government placed different areas of the country either Modified Enhanced Community Quarantine (MECQ) or General Community Quarantine (GCQ), depending on the assessed risk. Several local government units lifted the liquor bans under MECQ and GCQ, subject to certain restrictions.

Since the Company's primary operation is the importation and distribution of wines and spirits, the Company was only able to operate limitedly amidst the quarantine period. Moreover, the Company continues to have a skeletal workforce to oversee and make sure facilities, vital equipment, sanitation and security are adequately and properly maintained.

The Company has assessed that the ECQ being implemented by the government will have a potential unfavorable impact on the Company's revenues including the collection of its receivables, among others. However, the quantitative impact of this event on the Company's financial performance for the succeeding quarters is not yet determinable at this date. Nonetheless, the expected decline in operations does not pose a material uncertainty on the Company's ability to continue as a going concern.

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## 26. Supplementary Information Required by the Bureau of Internal Revenue (BIR) under Revenue Regulations No. 15-2010

In addition to the disclosures mandated under PFRS, and such other standards and/or conventions as may be adopted, companies are required by the BIR to provide in the notes to financial statements, certain supplementary information for the taxable year. The amounts relating to such information may not necessarily be the same with those amounts disclosed in the financial statements which were prepared in accordance with PFRS. The following are the tax information required for the taxable year ended December 31, 2019:

### a. VAT

1. Output VAT	<b>P187,935,581</b>
<i>Account title used:</i>	
Basis of the Output VAT:	
Vatable sales	P1,566,129,838
Zero rated sales	36,176,785
Exempt sales	737,004
	<b>P1,603,043,627</b>

<b>2. Input VAT</b>	
Balance at beginning of year	P13,062,393
Current year's domestic purchases:	
a. Goods for resale/manufacture or further processing	159,669,116
b. Goods other than for resale or manufacture	-
c. Services lodged under other accounts	13,468,637
VAT payments and other adjustments	6,255,628
VAT credits used	(187,935,581)
Balance at end of year	P4,520,193

**b. Customs Duties and Tariff Fees**

Landed cost of imports	P1,143,989,000
Customs duties and tariff fees paid or accrued	71,489,553
	P1,215,478,553

**c. Excise Taxes**

Imported excisable items wines and liquor	P201,223,810
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**d. Documentary Stamp Tax**

On borrowings	P3,273,168
On purchase of stocks	710,157
	P3,983,325

**e. Withholding Taxes**

Tax on compensation and benefits	P5,023,551
Expanded withholding taxes	4,427,945
	P9,451,496

**f. All Other Taxes (Local and National)**

<i>Other taxes paid during the year recognized under "Taxes and licenses" Account under Operating Expenses</i>	
License and permit fees	P1,154,391
Others	304,582
	P1,458,973

**g. Tax Cases and Assessments**

On June 19, 2019, the Company received a Preliminary Assessment Notice (PAN) covering Income Tax, Value Added Tax, Withholding Tax on Compensation and Documentary Stamp Tax for the taxable year 2018. The initial deficiency assessment based on preliminary investigation amounted to P4.1 million. The Company paid the deficiency tax in 2019.

Information on tariff fees paid or accrued, are not applicable since the Company did not enter into transactions which will result to payment or accrual of such taxes.

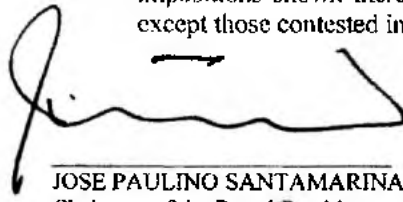


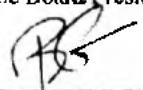
STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR ANNUAL INCOME TAX RETURN

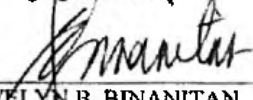
The Management of Premier Wine and Spirits, Inc. ("the Company") is responsible for all information and representations contained in the Annual Income Tax Return for the year ended December 31, 2018. Management is likewise responsible for all information and representations contained in the financial statements accompanying the Annual Income Tax Return covering the same reporting period. Furthermore, the Management is responsible for all information and representations contained in all the other tax returns filed for the reporting period, including, but not limited, to the value added tax returns, withholding tax returns, documentary stamp tax returns, and any and all other tax returns.

In this regard, the Management affirms that the attached audited financial statements for the year ended December 31, 2018 and the accompanying Annual Income Tax Return are in accordance with the books and records of Premier Wine and Spirits, Inc., complete and correct in all material respects. Management likewise affirms that:

- (a) the Annual Income Tax Return has been prepared in accordance with the provisions of the National Internal Revenue Code, as amended, and pertinent tax regulations and other issuances of the Department of Finance and the Bureau of Internal Revenue;
- (b) any disparity of figures in the submitted reports arising from the preparation of financial statements pursuant to financial accounting standards and the preparation of the income tax return pursuant to tax accounting rules has been reported as reconciling items and maintained in the company's books and records in accordance with the requirements of Revenue Regulations No. 8-2007 and other relevant issuances;
- (a) Premier Wine and Spirits, Inc. has filed all applicable tax returns, reports and statements required to be filed under Philippine tax laws for the reporting period, and all taxes and other impositions shown thereon to be due and payable have been paid for the reporting period, except those contested in good faith.

  
\_\_\_\_\_  
JOSE PAULINO SANTAMARINA  
Chairman of the Board/President

  
\_\_\_\_\_  
ROBIN DERRICK CO CHUA  
Managing Director

  
\_\_\_\_\_  
EVELYN B. BINANITAN  
Treasurer



Signed this 19th day of November 2020





R.G. Manabat & Co.  
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**REPORT OF INDEPENDENT AUDITORS  
TO ACCOMPANY FINANCIAL STATEMENTS FOR FILING  
WITH THE BUREAU OF INTERNAL REVENUE**

The Board of Directors and Stockholders  
**Premier Wine and Spirits, Inc.**  
Gate 1, Tabacalera Compound  
900 D. Romualdez Street  
Paco, Manila

We have audited the accompanying financial statements of Premier Wine and Spirits, Inc. (the "Company"), a wholly-owned subsidiary of Cosco Capital, Inc., for the year ended December 31, 2018, on which we have rendered our report dated November 27, 2020.

In compliance with Revenue Regulations V-20, we are stating that no partner of our Firm is related by consanguinity or affinity to the president, manager or principal stockholders of the Company.

**R.G. MANABAT & CO.**

*Gregorio I. Sambrano, Jr.*  
GREGORIO I. SAMBRANO, JR.  
Partner

CPA License No. 088825

SEC Accreditation No. 1548-AR-1, Group A, valid until December 17, 2021

Tax Identification No. 152-885-329

BIR Accreditation No. 08-001987-36-2018

Issued September 20, 2018; valid until September 19, 2021

PTR No. MKT 8116783

Issued January 2, 2020 at Makati City

November 27, 2020  
Makati City, Metro Manila

**Firm Regulatory Registration & Accreditation**

PRC-BOA Registration No. 0003, valid until November 21, 2023

SEC Accreditation No. 0003-SEC, Group A, valid for five (5) years covering the audit of 2020 to 2024

financial statements (2019 financial statements are covered by SEC Accreditation No. 0004-FR-5)

IC Accreditation No. 0003-IC, Group A, valid for five (5) years covering the audit of 2020 to 2024

financial statements (2019 financial statements are covered by IC Circular Letter (CL) No. 2019-39, Transition clause)

BSP Accreditation No. 0003-BSP, Group A, valid for five (5) years covering the audit of 2020 to 2024

financial statements (2019 financial statements are covered by BSP Monetary Board Resolution No. 2161, Transition clause)





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## REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders  
**Premier Wine and Spirits, Inc.**  
Gate 1, Tabacalera Compound  
900 D. Romualdez Street  
Paco, Manila

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of Premier Wine and Spirits, Inc. (the "Company"), a wholly-owned subsidiary of Cosco Capital, Inc., which comprise the statements of financial position as at December 31, 2018 and 2017, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended 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 *Auditors' 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 the 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.

**Firm Regulatory Registration & Accreditation:**  
PRC-BOA Registration No. 0003, valid until November 21, 2023  
SEC Accreditation No. 0003-SEC, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by SEC Accreditation No. 0004-FR-5)  
IC Accreditation No. 0003-IC, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by IC Circular Letter (CL) No. 2019-39, Transition clause)  
BSP Accreditation No. 0003-BSP, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by BSP Monetary Board Resolution No. 2181, Transition clause)



### *Responsibilities of Management and the Board of Directors for the Financial Statements*

Management is responsible for the preparation and fair presentation of the 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.

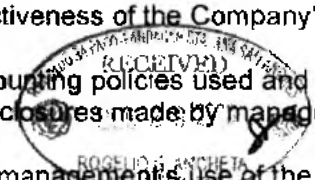
The Board of Directors is responsible for overseeing the Company's financial reporting process.

### *Auditors' Responsibilities for the Audit of the 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 auditors' 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, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSA, we exercise professional judgment and maintain professional skepticism throughout the audits. 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 auditors' 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 auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.





- 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 the Board of Directors and management 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.

**Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010 of the Bureau of Internal Revenue**

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 24 to financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**R.G. MANABAT & CO.**

*Gregorio I. Sambrano, Jr.*  
GREGORIO I. SAMBRANO, JR.  
Partner

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PTR No. MKT 8116783

Issued January 2, 2020 at Makati City

November 27, 2020  
Makati City, Metro Manila



**PREMIER WINE AND SPIRITS, INC.**  
**(A Wholly-owned Subsidiary of Cosco Capital, Inc.)**  
**STATEMENTS OF FINANCIAL POSITION**

		December 31	
	Note	2018	2017
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash	5	P130,920,946	P73,939,731
Trade and other receivables - net	6, 11	796,755,289	761,984,325
Inventories	7, 14	564,920,108	694,796,560
Prepaid expenses and other current assets	8	374,741,173	67,150,175
<b>Total Current Assets</b>		<b>1,867,337,516</b>	<b>1,597,870,791</b>
<b>Noncurrent Assets</b>			
Property and equipment - net	9	7,772,298	3,478,931
Deferred income tax assets	19	3,050,013	5,279,156
Refundable deposits	18	2,807,854	2,322,120
<b>Total Noncurrent Assets</b>		<b>13,630,165</b>	<b>11,080,207</b>
		<b>P1,880,967,681</b>	<b>P1,608,950,998</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Trade and other payables	10, 11	P218,924,769	P286,012,987
Due to related parties	11	297,700,000	297,700,000
Dividends payable	13	100,000,000	100,000,000
Loan payable	12, 22	357,000,000	50,000,000
Income tax payable		6,626,712	24,366,430
<b>Total Current Liabilities</b>		<b>979,251,481</b>	<b>758,079,417</b>
<b>Noncurrent Liability</b>			
Retirement benefits liability	17	6,562,556	14,233,985
<b>Total Liabilities</b>		<b>985,814,037</b>	<b>772,313,402</b>
<b>Equity</b>			
Capital stock - P100 par value			
Authorized, issued and outstanding -			
1,500,000 shares	13	150,000,000	150,000,000
Additional paid-in capital		1,500,000	1,500,000
Retained earnings	13	737,675,237	685,472,457
Accumulated remeasurements on retirement benefits		5,978,407	(334,861)
<b>Total Equity</b>		<b>895,153,644</b>	<b>836,637,596</b>
		<b>P1,880,967,681</b>	<b>P1,608,950,998</b>

See Notes to Financial Statements.

**PREMIER WINE AND SPIRITS, INC.**  
**(A Wholly-owned Subsidiary of Cosco Capital, Inc.)**  
**STATEMENTS OF COMPREHENSIVE INCOME**

		Years Ended December 31	
	Note	2018	2017
NET SALES	11	P2,368,580,890	P2,025,391,666
COST OF GOODS SOLD	14	2,011,404,563	1,644,155,615
GROSS PROFIT		357,176,327	381,236,051
OPERATING EXPENSES	15	270,211,131	229,755,167
INCOME FROM OPERATIONS		86,965,196	151,480,884
OTHER CHARGES - Net	16	(20,627,525)	(5,062,689)
INCOME BEFORE INCOME TAX		66,337,671	146,418,195
PROVISION FOR INCOME TAX	19	14,134,891	42,027,731
NET INCOME		52,202,780	104,390,464
<b>OTHER COMPREHENSIVE INCOME</b>			
<i>Item that will never be reclassified to profit or loss in subsequent periods</i>			
Remeasurement gain on retirement benefits	17	9,018,955	-
Deferred income tax expense	19	(2,705,687)	-
		6,313,268	-
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>P58,516,048</b>	<b>P104,390,464</b>

See Notes to Financial Statements.





**PREMIER WINE AND SPIRITS, INC.**  
**(A Wholly-owned Subsidiary of Cosco Capital, Inc.)**  
**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	Capital Stock	Additional Paid-in Capital	Accumulated Remeasurements on Retirement Benefits	Retained Earnings (Note 13)	Total
<b>Balances at December 31, 2016</b>	P150,000,000	P1,500,000	(P334,861)	P581,081,993	P732,247,132
Net income for the year	-	-	-	104,390,464	104,390,464
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	104,390,464	104,390,464
<b>Balances at December 31, 2017</b>	150,000,000	1,500,000	(334,861)	685,472,457	836,637,596
Net income for the year	-	-	-	52,202,780	52,202,780
Other comprehensive income	-	-	6,313,268	-	6,313,268
Total comprehensive income	-	-	6,313,268	52,202,780	58,516,048
<b>Balances at December 31, 2018</b>	P150,000,000	P1,500,000	P5,978,407	P737,675,237	P895,153,644

*See Notes to Financial Statements.*



**PREMIER WINE AND SPIRITS, INC.**  
**(A Wholly-owned Subsidiary of Cosco Capital, Inc.)**  
**STATEMENTS OF CASH FLOWS**

		Years Ended December 31	
	Note	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax		P66,337,671	P146,418,195
Adjustments for:			
Interest expense	11, 12, 16, 22	19,539,850	3,719,770
Provision for probable losses	10, 15	8,153,093	5,747,925
Depreciation and amortization	9, 15	2,980,754	2,051,051
Retirement benefits costs	17	1,347,526	2,273,883
Unrealized foreign exchange losses		983,228	742,274
Interest income	5, 16	(354,578)	(80,816)
Impairment loss on creditable withholding taxes	15	-	4,426,092
Operating income before working capital changes		98,987,544	165,298,374
Decrease (increase) in:			
Trade and other receivables - net		(34,770,964)	(11,671,143)
Inventories		129,876,452	(177,228,488)
Prepaid expenses and other current assets		(307,590,998)	21,318,072
Refundable deposits		(485,734)	(115,000)
Increase (decrease) in:			
Trade and other payables		(79,540,138)	86,413,854
Due to related parties		-	58,200,000
Cash generated from (used in) operations		(193,523,838)	142,215,669
Income taxes paid		(33,351,153)	(58,117,452)
Interest paid	22	(16,224,251)	(3,719,770)
Interest received	5, 16	354,578	80,816
Net cash from (used in) operating activities		(242,744,664)	80,459,263
<b>CASH FLOWS FROM AN INVESTING ACTIVITY</b>			
Additions to property and equipment	9	(7,274,121)	(1,040,292)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from availment of loan payable	22	437,000,000	-
Payments on loan payable	22	(130,000,000)	(20,000,000)
Net cash from (used in) financing activities		307,000,000	(20,000,000)
<b>NET INCREASE IN CASH</b>		<b>56,981,215</b>	<b>59,418,971</b>
<b>CASH AT BEGINNING OF YEAR</b>		<b>73,939,731</b>	<b>14,520,760</b>
<b>CASH AT END OF YEAR</b>	<b>5</b>	<b>P130,920,946</b>	<b>P73,939,731</b>

See Notes to Financial Statements.

**PREMIER WINE AND SPIRITS, INC.**  
**(A Wholly-owned Subsidiary of Cosco Capital, Inc.)**

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**NOTES TO FINANCIAL STATEMENTS**

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**1. Reporting Entity**

Premier Wine and Spirits, Inc. (the "Company") was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on June 19, 1996. The Company's primary purpose is to engage in the business of buying, selling, distribution and marketing on a wholesale basis, any and all kinds of beverages, spirits and liquors and to deal in any materials, articles or things required in connection with or incidental to the importation, exportation, manufacturing, marketing or distribution of such products.

The Company is a wholly-owned subsidiary of Cosco Capital, Inc. ("CosCo" or "Parent Company"), a company incorporated in the Philippines. CosCo's shares of stock are listed for trading at the Philippine Stock Exchange (PSE).

The Company's registered office address is at Gate 1, Tabacalera Compound, 900 D. Romualdez Street, Paco, Manila.

**2. Basis of Preparation**

Statement of Compliance

The financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). PFRS which are issued by the Philippine Financial Reporting Standards Council (FRSC), consist of PFRS, Philippine Accounting Standards (PAS), and Philippine Interpretations based on the International Financial Reporting Interpretations Committee (IFRIC) interpretations.

Basis of Measurement

The financial statements have been prepared on the historical cost basis of accounting, except for retirement benefits liability which is measured at the present value of the defined benefits obligation.

Functional and Presentation Currency

The financial statements are measured using the currency of the primary economic environment in which the Company operates. The financial statements are presented in Philippine Peso, which is also the Company's functional currency. All amounts are rounded to the nearest Peso, except when otherwise indicated.

Authorization for Issuance of the Financial Statements

The accompanying financial statements of the Company as at and for the years ended December 31, 2018 and 2017 were approved and authorized for issue by the Board of Directors (BOD) on November 9, 2020.

### 3. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in these financial statements, except for the changes in accounting policies as explained below.

#### Adoption of New Standards and Interpretation

The Company has adopted the following new standards and interpretation starting January 1, 2018 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption of these standards did not have any significant impact on the Company's financial statements. These standards are as follows:

- PFRS 9, *Financial Instruments (2014)* replaces PAS 39, *Financial Instruments: Recognition and Measurement* and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurements requirements (in 2009 and 2010) and a new hedge accounting model (in 2013).

PFRS 9 includes revised guidance on the classification and measurement of financial assets that reflects the business model in which assets are managed and their cash flow characteristics, including a new forward-looking expected credit loss (ECL) model for calculating impairment, and guidance on own credit risk on financial liabilities measured at fair value. PFRS 9 incorporates new hedge accounting requirements that represent a major overhaul of hedge accounting and introduces significant improvements by aligning the accounting more closely with risk management.

#### *Classification and Measurement of Financial Assets and Financial Liabilities*

PFRS 9 contains three principal classification categories for financial assets: (1) measured at amortized cost; (2) measured at fair value through other comprehensive income (FVOCI); and (3) measured at fair value through profit or loss (FVTPL). The classification of financial assets under PFRS 9 is generally based on the business model in which the financial asset is managed and its contractual cash flow characteristics. PFRS 9 eliminates the previous PAS 39 categories of held-to-maturity (HTM) investments, loans and receivables and available-for-sale (AFS) financial assets.

The following table shows the original measurement categories under PAS 39 and the new measurement categories under PFRS 9 for each class of the Company's financial assets as at January 1, 2018.

Financial Assets	Original Classification under PAS 39	New Classification under PFRS 9	Original Carrying Amount under PAS 39	New Carrying Amount under PFRS 9
Cash in banks	Loans and receivables	Financial assets at amortized cost	P73,614,333	P73,614,333
Trade and other receivables	Loans and receivables	Financial assets at amortized cost	761,984,325	761,984,325
Refundable deposits	Loans and receivables	Financial assets at amortized cost	2,322,120	2,322,120
<b>Total Financial Assets</b>			<b>P837,920,778</b>	<b>P837,920,778</b>

Financial assets that were previously classified as loans and receivables were all classified at amortized cost as the Company intends to hold these assets to maturity to collect contractual cash flows which consist solely of payments of principal and interest on the principal amount outstanding.

PFRS 9 largely retains the existing requirements in PAS 39 for the classification and measurement of financial liabilities. The adoption of PFRS 9 has not had a significant effect on the Company's accounting policies related to financial liabilities.

There were no financial assets or financial liabilities which the Company has previously designated as at FVTPL under PAS 39 that were subject to reclassification or which the Company has elected to reclassify upon the application of PFRS 9. There were no financial assets or financial liabilities which the Company has elected to designate as at FVTPL at the date of initial application of PFRS 9.

#### *Impairment of Financial Assets*

PFRS 9 replaces the "incurred loss" model in PAS 39 with an ECL model in relation to the impairment of financial assets. The new impairment model applies to financial assets measured at amortized cost. Under PFRS 9, credit losses are recognized earlier than under PAS 39. For assets in the scope of PFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Company has assessed that the impact of providing ECL is immaterial. Thus, the Company has determined that the application of PFRS 9's impairment requirements as at January 1, 2018 did not result in an additional allowance for impairment.

#### *General Hedging Accounting*

The adoption of PFRS 9 with respect to hedging accounting did not have an impact on the Company's accounting policies since the Company has no hedging transactions.

The Company used an exemption not to restate comparative information. The classification and measurement requirements previously applied in accordance with PAS 39 and disclosure requirements in PFRS 7 are retained for the comparative period. Accordingly, the information presented for the comparative period does not reflect the requirements of PFRS 9 and the consequential amendments to PFRS 7.

- PFRS 15, *Revenue from Contracts with Customers*, replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue*, IFRIC-13, *Customer Loyalty Programmes*, IFRIC-18, *Transfer of Assets from Customers*, and SIC-31, *Revenue - Barter Transactions Involving Advertising Services*. The new standard introduces a new revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) a company transfers control of goods or services to a customer at the amount to which the company expects to be entitled.

PFRS 15 requires a contract with a customer to be legally enforceable and to meet certain criteria to be within the scope of the standard and for the general model to apply. It introduces detailed guidance on identifying performance obligations which requires entities to determine whether promised goods or services are distinct. It also introduces detailed guidance on determining transaction price, including guidance on variable consideration and consideration payable to customers. The transaction price will then be generally allocated to each performance obligation in proportion to its stand-alone selling price.

Depending on whether certain criteria are met, revenue is recognized over time in a manner that best reflects the Company's performance, or at a point in time, when control of the goods or services is transferred to the customer.



The standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other PFRS. It also does not apply if two companies in the same line of business exchange non-monetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of other PFRS, then the guidance on separation and measurement contained in other PFRS takes precedence.

Due to the transition method (cumulative effect method) chosen in applying PFRS 15, comparative information has not been restated to reflect the new requirements. Accordingly, the information presented for 2017 has not been restated - i.e. it is presented as previously reported under PAS 18 and related interpretations. Additionally, the disclosure requirements in PFRS 15 have not generally been applied to comparative information.

For the year ended December 31, 2018, the Company carried out a detailed review of the revenue recognition criteria applying the requirements of PFRS 15 to ensure that the same principles were being applied consistently. This review in particular examined the timing of revenue recognition and variable consideration such as discounts, rebates, listing and slotting fees/display allowances for which no distinct goods or services is received.

#### *Timing of Revenue Recognition*

The Company concluded that PFRS 15 will not impact the timing of revenue recognition as revenue from sale of goods is currently recognized when the goods are delivered to the customers' warehouse, which is taken to be point in time at which control over the goods is transferred.

#### *Variable Consideration*

The revised accounting policy establishes that revenue is recognized to the extent that it is highly probable that a reversal in the amount of revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently settled. This means that discounts, allowances, listing and slotting fees/display allowances are deducted from revenue unless it is highly probable that they will not be incurred. Based on management's assessment, the application of PFRS 15 did not impact the current classification of these variable consideration, i.e. discounts, rebates, listing and slotting fees/display allowances and certain payments to customers after the initial sale of goods as reduction to revenue. Variable considerations are measured based on the most likely amount based on the agreement with customers.

The new standard did not have a material impact on the financial statements, including the Company's accounting policies with respect to its revenue streams.

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration* clarifies that the transaction date to be used for translation for foreign currency transactions involving an advance payment or receipt is the date on which the entity initially recognizes the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. The interpretation applies when an entity pays or receives consideration in a foreign currency and recognizes a non-monetary asset or liability before recognizing the related item.

The Company makes foreign currency purchases. The Company's accounting policy is aligned with the interpretation.

## Financial Instruments

### *Date of Recognition*

The Company recognizes a financial asset or a financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases and sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

### *Initial Recognition of Financial Instruments*

Financial instruments are recognized initially at fair value. The initial measurement of financial instruments, except for those financial assets and financial liabilities at FVTPL, includes transaction costs.

### *Classification and Measurement of Financial Instruments - Policy Applicable from January 1, 2018*

On initial recognition, the Company classifies its financial assets in the following categories: measured at amortized cost, financial assets at FVTPL, and financial assets at FVOCI. The classification depends on the business model for managing the financial assets and the contractual terms of its cash flows.

The Company classifies its financial liabilities as either financial liabilities at amortized cost or financial liabilities at FVTPL. The Company classifies all financial liabilities at amortized cost, except for: (a) financial liabilities designated by the Company at initial recognition as at FVTPL, when doing so results in more relevant information;

(b) financial liabilities that arise when the transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies; (c) contingent consideration recognized by the Company in a business combination which shall subsequently be measured at fair value with changes recognized in profit or loss; and (d) financial guarantee contracts and commitments to provide a loan at a below market interest rate which are initially measured at fair value and subsequently at higher of amortized amount and amount of loss allowance.

### *Business Model Assessment*

The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes: (a) the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether the management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets; (b) how the performance of the portfolio is evaluated and reported to the Company's management; (c) the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; (d) how managers of the business are compensated - e.g., whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and (e) the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.



*Solely Payments of Principal and Interest Assessment*

Principal is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers contingent events that would change the amount or timing of cash flows, terms that may adjust the contractual coupon rate, including variable-rate features, prepayment and extension features, and terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse features).

The Company has no financial assets classified as financial assets at FVTPL and FVOCI as at December 31, 2018.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

*Financial Assets at Amortized Cost*

A financial asset is measured at amortized cost if it is held within a business model whose objective is to hold assets to collect contractual cash flows, its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, and it is not designated as at FVTPL.

Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

Included in this category are the Company's cash in banks, trade and other receivables, and refundable deposits.

*Financial Liabilities at Amortized Cost*

This category pertains to financial liabilities that are not held for trading or designated as at FVTPL upon inception of the liability. These include liabilities arising from operations or borrowings. The financial liabilities are recognized initially at fair value and subsequently carried at amortized cost, taking into account the impact of applying the effective interest rate method of amortization for any related premium, discount and any directly attributable transaction costs. These financial liabilities are included in current liabilities if maturity is within twelve months from reporting date. Otherwise, these are classified as noncurrent liabilities.

This category includes the Company's trade and other payables (excluding provision and payables to government agencies), due to related parties, dividends payable and loan payable.

*Classification and Measurement of Financial Instruments - Policy Applicable before January 1, 2018*

On initial recognition, the Company classifies its financial assets in the following categories: financial assets at FVTPL, loans and receivables, HTM investments and AFS financial assets. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. Financial liabilities on the other hand, are classified into the following categories: financial liabilities at FVTPL and other financial liabilities. Management determines the classification of its financial assets and financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at each reporting date.

Financial instruments are classified as liability 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 reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

As at December 31, 2017, the Company's financial assets and financial liabilities consist of loans and receivables and other financial liabilities, respectively.

*Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivables. After initial measurement, loans and receivables are subsequently carried at cost or amortized cost using the effective interest method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process. Loans and receivables are classified as current assets if maturity is within 12 months from the reporting date or the normal operating cycle, whichever is longer. Otherwise, these are classified as noncurrent assets.

As at December 31, 2017, the Company's loans and receivables include cash in banks, trade and other receivables, and refundable deposits.

*Other Financial Liabilities*

This category pertains to financial liabilities that are not held for trading or not designated as at FVTPL upon the inception of the liability. These include liabilities arising from operations or borrowings (e.g., payables, accruals). Other financial liabilities are initially recognized at fair value, plus directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the amortization process. Financial liabilities are classified as current, except for maturities greater than twelve months after the reporting date. These are classified as noncurrent liabilities.

As at December 31, 2017, the Company's other financial liabilities include trade and other payables (excluding provision and payables to government agencies), due to related parties, dividends payable and loan payable.

### Impairment of Financial Assets

*Policy Applicable from January 1, 2018*

PFRS 9 replaces the "incurred loss" model in PAS 39 with an ECL model. The new impairment model applies to financial assets measured at amortized cost. Under PFRS 9, credit losses are recognized earlier than under PAS 39.

The Company measures loss allowances at an amount equal to lifetime ECLs, except for debt securities that are determined to have low credit risk at the reporting date and other debt securities and bank balances for which credit risk has not increased significantly since initial recognition, which are measured at 12-month ECLs.

Loss allowances for trade and other receivables is always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 360 days past due. The Company considers a financial asset to be in default when the customer is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security (if any is held) or the financial asset is more than 360 days past due on any material credit obligation to the Company.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. The 12-month ECLs are a portion of lifetime ECLs that represents the ECLs resulting from default events on the financial instrument that are possible within 12 months after the reporting date or a shorter period if the expected life of the instrument is less than 12 months.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

ECLs are probability weighted-estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Company assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes significant financial difficulty of the borrower or issuer, a breach of contract such as default, the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise, when it is probable that the borrower will enter bankruptcy or other financial reorganization, or the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

Financial assets are written off when there is no reasonable expectation of recovery. The Company categorizes financial assets recorded at amortized cost for write off when a debtor fails to make payments or when it is probable that the receivable will not be collected. Where amortized cost financial assets have been written off, the Company continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognized in profit or loss.

*Policy Applicable before January 1, 2018*

The Company assesses at each reporting date whether a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the contracted parties or group of contracted parties is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*Loans and Receivables*

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant or collectively for financial assets that are not individually significant. If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of loss is measured as a 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 shall be reduced through the use of an allowance account, and the amount of the loss shall be recognized in profit or loss.

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 group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

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 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 Financial Liabilities

### *Financial Assets*

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

- the rights to receive cash flows from the asset have expired;
- the Company retains the rights 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 rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a "pass-through" arrangement and has neither transferred nor retained substantially all the risks and rewards 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 is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to pay.

### *Financial Liabilities*

A financial liability is derecognized when the obligation under the liability is discharged or 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 Financial Instruments

Financial assets and liabilities are offset and the net amount is 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. This is not generally the case with master netting agreements, and the related assets and liabilities are presented at gross in the statement of financial position.

## Fair Value Measurement

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 measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to the Company.

The fair value of an asset or a liability is measured using the assumptions that the market participants would use when pricing the asset or liability, assuming that the market participants act in their economic best interest.

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 markets 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 reassessing categorization (based on the lowest level of 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.

As at December 31, 2018 and 2017, no financial asset or financial liability was recognized at fair value. The Company has no other assets or liabilities with recurring and non-recurring fair value measurements.

#### Inventories

Inventories, which consist of spirits, wines and specialty beverages, are valued at the lower of cost and net realizable value (NRV). Cost is comprised of purchase price, expenditure incurred in acquiring the inventories and other costs incurred in bringing them to their present location and condition. Cost is determined using the first-in, first-out method.

NRV represents the estimated selling price less costs to be incurred in marketing, selling and distribution. In determining the NRV, the Company considers any adjustment necessary to write-down inventories to NRV for slow-moving and near expiry products based on physical inspection and management evaluation.

#### Prepaid Expenses and Other Current Assets

##### *Prepaid Expenses and Advances to Suppliers*

Prepaid expenses represent expenses not yet incurred but already paid in cash. Prepaid expenses are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are charged to profit or loss as these are consumed in operations or expire with the passage of time.

Prepaid expenses are classified in the statement of financial position as current asset when the cost of goods or services related to the prepayment are expected to be incurred within one (1) year from the reporting date. Otherwise, prepayments are classified as noncurrent assets.

Advances to suppliers are measured at the amount of initial down payment for purchases of inventories and are applied against future progress billings. These are classified as current assets in the statement of financial position.



#### Value-added Tax (VAT)

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

- where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of VAT included.

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of "Prepaid expenses and other current assets" or "Trade and other payables" in the statement of financial position.

#### Refundable Deposits

Refundable deposits are cash paid for the lease agreements covering the office spaces and warehouse which are expected to be refunded upon the termination of the lease. These are carried at net realizable value and classified as current for leases which will expire within 12 months from the reporting period otherwise, these will be classified as noncurrent.

#### Property and Equipment

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

The initial cost of property and equipment consists of its purchase price, including any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to profit or loss in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of the item of property and equipment.

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

	Number of Years
Transportation and equipment	3
Furniture and fixtures	3
Leasehold improvements	3 or lease term, whichever is shorter
Machinery and equipment	3
Office equipment	3

Depreciation or amortization of an item of property and equipment begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation or amortization ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, and the date the asset is derecognized.

The estimated useful lives and depreciation and amortization method are reviewed periodically to ensure that the periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation is recognized in profit or loss. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and any impairment in value are removed from the accounts and any resulting gain or loss is recognized in profit or loss.

#### Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. The capitalization of borrowing costs: (i) commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred; (ii) is suspended during the extended periods in which active development, improvement and construction of the assets are interrupted; and (iii) ceases when substantially all the activities necessary to prepare the assets are completed. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds.

Other borrowing costs are recognized as expense in the period in which they are incurred.

#### Impairment of Noncurrent Nonfinancial Assets

The Company assesses at end of each reporting period whether there is an indication that its noncurrent nonfinancial assets which consists of property and equipment may be impaired. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets or the cash generating unit (CGU) are written down to their recoverable amounts. The recoverable amount of the noncurrent nonfinancial assets is the greater of fair value less cost to sell and value-in-use. The fair value less cost to sell is the price that would be received to sell an asset in an orderly transaction between market participants less cost to sell. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs. Impairment losses, if any, are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The increase amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount on a systemic basis over its remaining useful life.

### Capital Stock

Ordinary or common shares are classified as equity. The proceeds from the issuance of ordinary or common shares are presented in equity as capital stock to the extent of the par value of the issued and outstanding shares and any excess of the proceeds over the par value of the shares issued, less any incremental costs directly attributable to the issuance, net of tax, is presented in equity as additional paid-in capital.

### Retained Earnings

Retained earnings represent the cumulative balance of periodic net income or loss, dividend contributions, correction of prior year errors, effect of changes in accounting policy and other capital adjustments.

### Dividends on Common Shares

Cash and property dividends on common shares are recognized as liability and deducted from equity when approved by the BOD of the Company. Stock dividend declared but not yet issued is presented as "Capital stock dividend distributable" in the statement of financial position. When the stock dividends are declared, the amount of stock dividends are treated as transfers from retained earnings to common shares.

Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date.

### Revenue Recognition

Prior to January 1, 2018, under PAS 18, *Revenue*, revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the amount of revenue can be reliably measured.

Upon adoption of PFRS 15 beginning January 1, 2018, revenue from contracts with customers is recognized upon transfer of goods to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods.

The following specific recognition criteria must also be met before revenue is recognized:

#### *Sale of Goods*

Revenue is recognized at the point in time when control of the asset is transferred to the customer, generally upon delivery. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized. Revenue is recognized net of variable considerations, i.e. discounts, rebates, listing and slotting fees/display allowances and certain payments to customers after the initial sale of goods as reduction to revenue.

#### *Interest Income*

Interest income is recognized in profit or loss as it accrues, taking into account the effective yield on the asset.

### Cost and Expense Recognition

#### *Cost of Goods Sold*

Cost of goods sold is recognized when goods are delivered to the buyer. Expenses are recognized upon utilization of services or at the date they are incurred.

### *Operating Expenses*

Operating expenses are costs incurred to sell or distribute the goods and to administer the business. It includes documentation processing and delivery, among others. Operating expenses are expensed as incurred.

### 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 year in accordance with PFRS.

### Employee Benefits

#### *Short-term Employee Benefits*

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of the past service provided by the employee and the obligation can be estimated reliably.

#### *Retirement Benefits Liability and Costs*

The Company has an unfunded, non-contributory defined benefits retirement plan covering substantially all permanent, regular and full-time employees. The Company's obligation in respect of the defined benefits is calculated by estimating the amount of the future benefits that employees have earned in the current and prior periods and discounting that amount.

The calculation of defined benefits obligations is performed on a periodic basis by a qualified actuary using the projected unit credit method.

Remeasurements of the retirement benefits liability, which comprise of actuarial gains and losses, are recognized immediately in other comprehensive income. Such remeasurements are also immediately recognized in equity under "Accumulated remeasurements on retirement benefits". The Company determines the interest expense on the retirement benefits liability for the period by applying the discount rate used to measure the defined benefits obligation at the beginning of the annual period to the then retirement benefits liability, taking into account any changes in the retirement benefits liability during the period as a result of benefit payments, if any. Interest expense and other expenses related to defined benefits plans are recognized in profit or loss.

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

### Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after the inception of 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 an extension is 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 specific asset, or
- (d) there is a substantial change to the asset.

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

#### *Company as Lessee*

Leases where the lessors retain substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in profit or loss on a straight-line basis over the lease term. Associated costs such as maintenance and insurance are expensed as incurred.

#### Income Taxes

Provision for income tax is composed of current income tax and deferred income tax. Provision for income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income, in which case, it is recognized directly in equity or in other comprehensive income.

#### *Current Income Tax*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used as basis to compute the amount are those that have been enacted or substantively enacted at the reporting date.

#### *Deferred Income Tax*

Deferred income tax is provided, using the balance sheet liability method, 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 income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that sufficient future taxable profits will allow the deferred income tax asset to be recovered.

Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

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

#### Related Party Transactions and Relationships

Related party relationships exist when the party has the ability to control, directly or indirectly, through one or more intermediaries, or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting entity and its key management personnel, directors or stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely to the legal form.

#### Foreign Currency-denominated Transactions and Translations

Transactions in foreign currencies are recorded using the functional currency exchange rate at the date of the transaction. Outstanding monetary assets and monetary liabilities denominated in foreign currencies are translated using the closing exchange rate at the reporting date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

#### Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of the provision to be reimbursed, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss, net of reimbursement. If the effect of the time value of money is material, provisions are discounted using the current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, 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 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 position at the reporting date (adjusting events) are reflected in the financial statements. Events after the reporting date that are not adjusting events are disclosed in the notes to financial statements when material.

#### Standards Issued But Not Yet Adopted

A number of new standards, amendments to standards and interpretation are effective for annual periods beginning after January 1, 2018. However, the Company has not applied the following relevant and applicable new standard, amendments to standards and interpretation in preparing these financial statements. Unless otherwise stated, none of these are expected to have a significant effect on the Company's financial statements.

The Company plans to adopt the following new standard, amendments to standards and interpretation on the respective effective dates, as applicable.



Effective January 1, 2019

- PFRS 16, *Leases* supersedes PAS 17, *Leases* and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements.

Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were also introduced.

Early adoption is permitted. The Company has performed its assessment on the potential impact of PFRS 16 on its financial statements. The details of the financial impact in the financial statements upon adoption on January 1, 2019 are as follows:

	Impact of Adopting PFRS 16
<b>Assets</b>	
Right-of-use asset - net	P14,626,093
<b>Liabilities and Equity</b>	
Lease liability	17,526,134
Retained earnings	(401,440)
<b>Operating Expenses</b>	
Depreciation expense	9,453,503
Rent expense	(10,439,588)
<b>Other Income (Expense)</b>	
Interest expense	798,137

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments* clarifies how to apply the recognition and measurement requirements in PAS 12, *Income Taxes* when there is uncertainty over income tax treatments. Under the interpretation, whether the amounts recorded in the financial statements will differ to that in the tax return, and whether the uncertainty is disclosed or reflected in the measurement, depends on whether it is probable that the tax authority will accept the Company's chosen tax treatment. If it is not probable that the tax authority will accept the Company's chosen tax treatment, the uncertainty is reflected using the measure that provides the better prediction of the resolution of the uncertainty - either the most likely amount or the expected value.

The interpretation also requires the reassessment of judgments and estimates applied if facts and circumstances change - e.g. as a result of examination or action by tax authorities, following changes in tax rules or when a tax authority's right to challenge a treatment expires.

- PAS 19, *Employee Benefits - Plan Amendment, Curtailment or Settlement (Amendments)* clarify that on amendment, curtailment or settlement of a defined benefit plan, an entity now uses updated actuarial assumptions to determine its current service cost and net interest for the period. The effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income.

The amendments apply for plan amendments, curtailments or settlements that occur on or after the beginning of the first annual reporting period that begins on or after January 1, 2019. Earlier application is permitted.

#### *Effective January 1, 2020*

- *Amendments to References to Conceptual Framework in PFRS Standards* set out amendments to PFRS Standards, their accompanying documents and PFRS practice statements to reflect the issuance of the revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework). The 2018 Conceptual Framework includes a new chapter on measurement, guidance on reporting financial performance, improved definitions of an asset and a liability, and guidance supporting these definitions, and clarifications in important areas, such as the roles of stewardships, prudence and measurement uncertainty in financial reporting.

Some Standards, their accompanying documents and PFRS practice statements contain references to, or quotations from, the International Accounting Standards Committee (IASB)'s Framework for the Preparation and Presentation of Financial Statements adopted by the International Accounting Standards Board (IASB) in 2001 or the Conceptual Framework for Financial Reporting issued in 2010. The amendments update some of those references and quotations so that they refer to the 2018 Conceptual Framework, and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

- PAS 1, *Presentation of Financial Statements* and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Material (Amendments)* refine the definition of material. The amended definition of material states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify the definition of material and its application by:
  - (a) raising the threshold at which information becomes material by replacing the term "could influence" with "could reasonably be expected to influence";
  - (b) including the concept of "obscuring information" alongside the concept of "omitting" and "misstating" information in the definition;
  - (c) clarifying that the users to which the definition refers are the primary users of general purpose financial statements referred to in the Conceptual Framework;
  - (d) clarifying the explanatory paragraphs accompanying the definition; and
  - (e) aligning the wording of the definition of material across PFRS Standards and other publications.

The amendments are expected to help entities make better materiality judgments without substantively changing existing requirements.

The amendments apply prospectively. Earlier application is permitted.

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#### 4. Management's Use of Judgments, Accounting Estimates and Assumptions

The preparation of the financial statements in accordance with PFRS requires management to exercise judgments, make accounting estimates and use assumptions that affect reported amounts of assets, liabilities, income and expenses and related disclosures. Future events may occur which will cause the assumptions used in arriving at the accounting estimates to change. The effects of any change in accounting estimates are reflected in the financial statements as they become reasonably determinable.

Accounting judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

##### Judgments

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

##### *Determination of the Company's Functional Currency*

The Company considers factors, including but not limited to, the currency that mainly influences sales prices of its goods and costs of its products. Based on the economic substance of the underlying circumstances relevant to the Company, the functional currency has been determined to be the Philippine Peso. It is the currency that mainly influences the Company's operations.

##### *Operating Lease - Company as a Lessee*

The Company entered into various lease agreements for its office space and warehouse as a lessee. The Company has determined that the lessors retain all significant risks and rewards of ownership of these properties which are accounted for under operating leases.

##### *Recognition of Revenue*

The Company uses its judgment in determining the timing of the transfer of control on the goods that it delivered. The Company determined that the control is transferred for sale of goods when the Company has transferred physical possession of the goods and obtained the right to payment for the goods which is upon the customer's acceptance of the goods at the customer's warehouse.

### Accounting Estimates and Assumptions

The key estimates and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below:

#### *Allowance for Impairment Losses on Receivables and Refundable Deposits Policy applicable from 2018*

The Company uses the ECL model in estimating the level of allowance which includes forecasts of future events and conditions. A credit loss is measured as the present value of all cash shortfalls (the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive). The model represents a probability-weighted estimate of the difference over the remaining life of the receivables. The maturity of the Company's receivables is less than one year so the lifetime ECLs and the 12-month ECLs are similar. In addition, management assessed that the credit risk for its trade and other receivables and refundable deposits as at the reporting date are low, therefore the Company did not have to assess whether a significant increase in credit risk has occurred. An increase in the allowance for expected credit losses would increase the recorded operating expenses and decrease current assets.

ECLs of refundable deposits has been measured on a 12-month expected credit loss basis. In determining the ECL of refundable deposits, the Company considers the counterparties' financial condition and their capacity to return the amounts due. The Company assessed that the credit risk for the outstanding refundable deposits is low as majority of these are transacted with a counterparty that has a good credit-standing.

#### *Policy applicable before 2018*

The Company maintains an allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. The Company performs regular review of the age and status of these accounts, designed to identify accounts with objective evidence of impairment and provides these with the appropriate allowance for impairment losses. The review is accomplished using a combination of specific and collective assessment approaches, with the impairment losses being determined for each risk grouping identified by the Company. 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 would increase the recorded general and administrative expenses and decrease current assets.

The carrying values of trade and other receivables and refundable deposits amounted to P799,563,143 and P764,306,445 as at December 31, 2018 and 2017, respectively (see Notes 6 and 18). As at December 31, 2018 and 2017, the Company's allowance for ECLs on trade receivables amounted to P2,620,922 (see Note 6). No allowance for ECL was recognized for refundable deposits as at December 31, 2018 and 2017.

#### *Determination of NRV of Inventories*

The Company's estimates of the NRV of inventories are based on the most reliable evidence available at the time the estimates are made, of the amount that the inventories are expected to be realized. These estimates consider the inventory obsolescence, physical deterioration, fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. A new assessment is made at NRV in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is a clear evidence of an increase in NRV because of changes in economic circumstances, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised NRV.

Management assessed that no allowance to write-down inventories to NRV was necessary as at December 31, 2018 and 2017. The cost of inventories amounted to P564,920,108 and P694,796,560 as at December 31, 2018 and 2017, respectively (see Note 7).

#### *Estimation of Useful Lives of Property and Equipment*

The Company estimates the useful lives of property and equipment based on the period over which the asset is 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 asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible that future financial performance could be materially affected by changes in these estimates brought about by changes in the factors mentioned. Any reduction in the estimated useful lives of the property and equipment would increase depreciation and amortization expense and decrease noncurrent assets.

The estimated useful lives of property and equipment are discussed in Note 3 to financial statements. There is no change in the Company's estimate of useful lives of property and equipment in 2018 and 2017.

The carrying values of property and equipment amounted to P7,772,298 and P3,478,931 as at December 31, 2018 and 2017, respectively. Depreciation and amortization recognized in profit or loss amounted to P2,980,754 and P2,051,051 for the years ended December 31, 2018 and 2017, respectively (see Notes 9 and 15).

#### *Impairment of Noncurrent Nonfinancial Assets*

The Company assesses at the end of each reporting period whether there is any indication that its noncurrent nonfinancial assets which pertains to property and equipment are impaired. If any such indication exists, the Company estimates the recoverable amount of these assets. Determining the fair value of these noncurrent nonfinancial assets which requires the determination of the future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Company to make estimates and assumptions that can materially affect the financial statements. Future events could cause management to conclude that these assets are impaired. Any resulting impairment loss could have a material adverse impact on the Company's financial position and financial performance. The preparation of the estimated future cash flows involves significant judgment and estimations. While management believes that the assumptions made are appropriate and reasonable, significant changes in management assumptions may materially affect the assessment of recoverable values and may lead to future additional impairment charges under PFRS.

The carrying values of property and equipment amounted to P7,772,298 and P3,478,931 as at December 31, 2018 and 2017, respectively. No impairment loss was recognized for the Company's property and equipment in 2018 and 2017 (see Note 9).

*Estimation of Retirement Benefits Liability and Costs*

The cost of defined benefits retirement plans, as well as the present value of the defined benefits obligation, is determined using actuarial valuations. The actuarial valuations involve making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefits obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting period.

The Company has retirement benefits liability amounting to P6,562,556 and P14,233,985 as at December 31, 2018 and 2017, respectively. Retirement benefits costs recognized in profit or loss amounted to P1,347,526 and P2,273,883 in 2018 and 2017, respectively (see Note 17).

*Recognition of Deferred Income Tax Assets*

The Company reviews its deferred income tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. The Company also reviews the expected timing and tax rates upon reversal of temporary differences and adjusts the impact on deferred income tax accordingly. The Company's assessment on the recognition of deferred income tax assets is based on the forecasted taxable income of the subsequent reporting periods. This forecast is based on the Company's past results and future expectations on revenues and expenses. While the Company believes that its assumptions are appropriate and reasonable, significant changes in these assumptions may materially affect the Company's assessment of the realizability of deferred income tax assets and may lead to future addition to the provision for deferred income tax.

The Company has recognized deferred income tax assets amounting to P3,050,013 and P5,279,156 as at December 31, 2018 and 2017, respectively (see Note 19).

*Provisions and Contingencies*

The Company, in the ordinary course of business, sets up appropriate provisions for certain contractual and regulatory obligations, if any, in accordance with its policies on provisions and contingencies. In recognizing and measuring provisions, management takes risk and uncertainties into account.

The Company has recognized a provision for probable losses amounting to P13,901,018 and P5,747,925 as at December 31, 2018 and 2017, respectively. Provision for probable losses amounting to P8,153,093 and P5,747,925 was set up by the Company in 2018 and 2017, respectively (see Notes 10 and 15).



## 5. Cash

This account consists of:

	<i>Note</i>	2018	2017
Cash on hand		P265,065	P325,398
Cash in banks	20	130,655,881	73,614,333
		<b>P130,920,946</b>	<b>P73,939,731</b>

Cash in banks earns interest at the respective bank deposit rates.

Interest income recognized in profit or loss from bank deposits amounted to P354,578 and P80,816 in 2018 and 2017, respectively (see Note 16).

## 6. Trade and Other Receivables

This account consists of:

	<i>Note</i>	2018	2017
Trade			
Third parties		P602,432,352	P507,965,424
Related parties	11	195,187,171	219,122,389
Less allowance for expected credit losses on trade receivables		(2,620,922)	(2,620,922)
		<b>794,998,601</b>	<b>724,466,891</b>
Nontrade			
Others		1,383,336	37,189,362
	20	<b>P796,755,289</b>	<b>P761,984,325</b>

Trade receivables are unsecured, non-interest-bearing and generally have a 30 to 60 days credit terms.

Nontrade receivables pertain to receivables from suppliers for the reimbursements of expenses made by the Company for brand promotions. These are non-interest-bearing and generally have a 60 to 90 days credit terms.

The movement in allowance for expected credit losses on trade receivables during the year was as follows:

	2018	2017
Balance at beginning of year	P2,620,922	P3,340,548
Write-off	-	(719,626)
Balance at end of year	<b>P2,620,922</b>	<b>P2,620,922</b>

## 7. Inventories

This account consists of:

	Note	2018	2017
Spirits - at cost		P408,967,051	P530,912,055
Wines - at cost		88,056,215	51,121,349
Specialty beverages - at cost		67,896,842	112,763,156
	14	P564,920,108	P694,796,560

In 2018 and 2017, inventories amounting to P2,011,404,563 and P1,644,155,615, respectively, were recognized as an expense during the year and included in "Cost of goods sold" (see Note 14).

## 8. Prepaid Expenses and Other Current Assets

This account consists of:

	2018	2017
Advances to suppliers	P360,778,648	P58,202,844
Input VAT	13,062,393	7,756,548
Prepaid expenses	900,132	1,190,783
	P374,741,173	P67,150,175

Advances to suppliers pertain to initial down payment made by the Company to suppliers and will be applied against future billings.

In 2017, the Company recognized an impairment loss on its unutilized creditable withholding taxes (see Note 15).

## 9. Property and Equipment

The movements and balances in this account are as follows:

	Transportation and Equipment	Furniture and Fixtures	Leasehold Improvements	Machinery and Equipment	Office Equipment	Total
<b>Cost</b>						
December 31, 2016	P17,467,991	P3,882,920	P8,845,801	P1,883,144	P7,974,752	P40,054,608
Additions	-	34,141	-	208,808	796,343	1,040,292
December 31, 2017	17,467,991	3,917,061	8,845,801	2,092,952	8,771,095	41,094,900
Additions	721,429	29,821	5,355,440	680,050	487,381	7,274,121
December 31, 2018	18,189,420	3,946,882	14,201,241	2,773,002	9,258,476	48,369,021
<b>Accumulated Depreciation and Amortization</b>						
December 31, 2016	17,436,845	3,836,795	6,462,815	901,884	6,928,579	35,564,918
Depreciation and amortization for the year	14,375	64,891	582,977	443,223	935,585	2,051,051
December 31, 2017	17,451,220	3,901,686	7,055,792	1,345,107	7,862,164	37,615,969
Depreciation and amortization for the year	74,494	13,037	1,485,550	573,551	834,122	2,980,754
December 31, 2018	17,525,714	3,914,723	8,541,342	1,918,658	8,696,286	40,596,723
<b>Carrying Amounts</b>						
December 31, 2017	P16,771	P15,375	P1,790,009	P747,845	P908,931	P3,478,931
December 31, 2018	P63,706	P32,159	P5,659,899	P854,344	P562,190	P7,772,298

Depreciation and amortization expense for the years ended December 31, 2018 and 2017 were charged as part of "Operating expenses" in profit or loss (see Note 15).

#### 10. Trade and Other Payables

This account consists of:

	<i>Note</i>	2018	2017
Trade payables to third parties	20	P152,268,905	P212,714,270
Nontrade:			
Related parties	11, 20	13,562,353	2,717,707
Third parties	20	17,683,792	39,891,739
Accrued expenses	20	19,212,625	14,666,018
Provision		13,901,018	5,747,925
Payables to government agencies		2,296,076	10,275,328
		<b>P218,924,769</b>	<b>P286,012,987</b>

Trade payables are non-interest-bearing and generally have a 30 to 60 days credit term.

Nontrade payables are amounts owed to nontrade suppliers such as manpower agencies, freight companies and other nontrade transactions. These are non-interest-bearing and generally have a 30 to 60 days credit term. These also include interest on advances from the Parent Company.

Accrued expenses consist mainly of accruals for warehousing, salaries and wages, utilities, importation charges and other operating expenses.

In 2018 and 2017, the Company set-up a provision for any probable liabilities that may arise as a result of conducting its business. The disclosures of additional details beyond the present disclosures may prejudice the Company's position with respect to these matters. Thus, as allowed by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, only a general description is provided.

The Company has recognized provision for probable losses as part of "Operating expenses" in profit or loss amounting to P8,153,093 and P5,747,925 as at December 31, 2018 and 2017, respectively (see Notes 15).

## 11. Related Party Transactions

Transactions and account balances with related parties as at and for the years ended December 31 are as follows:

Category	Year	Note	Transactions During the Year	Outstanding Balance		Terms	Conditions
				Trade Receivables	Amounts Owed to Related Parties		
<b>Parent Company</b>							
• Advances	2018	a	P -	P -	P105,000,000	Payable on demand	Unsecured
	2017		-	-	105,000,000		
• Interest expense	2018	u, 10	3,315,589	-	4,103,099	Payable on demand	Unsecured
	2017		1,880,000	-	787,500		
• Management fee	2018	b, 15	-	-	105,700,000	Due and demandable non-interest-bearing	Unsecured
	2017		60,000,000	-	105,700,000		
<b>Entities under Common Control</b>							
• Advances	2018	c	-	-	86,000,000	Payable on demand; non-interest-bearing	Unsecured
	2017		-	-	86,000,000		
• Sales of goods	2018	d, 6	533,797,615	195,187,171	-	30 to 60-day credit term; non-interest-bearing	Unsecured; no impairment
	2017		448,927,615	219,122,399	-		
• Rent expense	2018	e, 10, 18	2,224,290	-	1,053,350	Payable on demand; non-interest bearing	Unsecured
	2017		2,412,425	-	1,533,295		
• Reimbursement of expenses	2018	f, 10	8,405,904	-	8,405,904	Payable on demand; non-interest bearing	Unsecured
	2017		236,911	-	265,911		
<b>TOTAL</b>	<b>2018</b>			<b>P195,187,171</b>	<b>P311,262,353</b>		
<b>TOTAL</b>	<b>2017</b>			<b>P219,122,389</b>	<b>P300,417,707</b>		

- Cash advances extended by its Parent Company in the form of promissory note. These advances earn annual interest rate of 3.0% and 1.8% for 2018 and 2017, respectively with maturities of two (2) years.
- The Parent Company provides corporate services to the Company.
- These are cash advances from an entity under common control for additional working capital requirements.
- In the normal course of business, the Company distributes wines and liquors to entities under common control.
- The Company entered into a lease agreement with an entity under common control for its office space (see Note 18).
- This represents advances from officers and related parties in the form of reimbursement of expenses and working capital advances.
- The compensation of the key management personnel of the Company, by benefit type, follows:

	2018	2017
Short-term employee benefits	P3,716,838	P2,799,844
Retirement benefits cost	110,009	499,841
	<b>P3,826,847</b>	<b>P3,299,685</b>

As at December 31, 2018 and 2017, amounts owed to related parties are presented as follows:

	Note	2018	2017
Trade and other payables	10	P13,562,353	P2,717,707
Due to related parties		297,700,000	297,700,000
		<b>P311,262,353</b>	<b>P300,417,707</b>

Amounts owed by and owed to related parties are to be settled in cash.

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## 12. Loan Payable

This account pertains to unsecured, peso-denominated loans obtained from a local bank with maturity of 90 days with annual interest rate of 3.00% and 2.875% in 2017 and 2018, respectively. This loan is intended to finance the inventory build up and additional working capital requirements of the Company.

This loan is not subject to compliance with any loan covenant.

Interest expense recognized in profit or loss relating to the loan payable amounted to P16,224,251 and P1,829,770 for the year ended December 31, 2018 and 2017, respectively (see Note 16 and 22).

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## 13. Equity

### Retained Earnings

On December 11, 2015, the Company's BOD approved the declaration of cash dividends amounting to P100 million, payable to stockholders of record as at the same date.

Stock corporations are prohibited from retaining surplus profits in excess of one hundred (100%) percent of their paid-in capital stock, except:

- a. when justified by definite corporate expansion projects or programs approved by the Board of Directors; or
- b. when the corporation is prohibited under any loan agreement with any financial institutions or creditors, whether local or foreign, from declaring dividends without their consent, and such consent has not yet been secured; or
- c. when it can be clearly shown that such retention is necessary under special circumstances of the corporation, such as when there is a need for special reserve for probable contingencies.

As at December 31, 2018, the Company has retained earnings in excess of its paid-up capital. The Company is planning to apply for an increase in the authorized capital stock of the Company with the SEC in 2020 or 2021 to address the excess retained earnings.

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## 14. Cost of Goods Sold

This account consists of:

	<u>Note</u>	<u>2018</u>	<u>2017</u>
Inventory at beginning of year		P694,796,560	P517,568,072
Net purchases during the year		1,881,528,111	1,821,384,103
Cost of goods available for sale		2,576,324,671	2,338,952,175
Inventory at end of year	7	(564,920,108)	(694,796,560)
		P2,011,404,563	P1,644,155,615



## 15. Operating Expenses

This account consists of:

	<i>Note</i>	2018	2017
Advertising		P140,094,281	P42,509,159
Warehousing and delivery		47,935,715	44,860,685
Salaries, wages and other employee benefits	17	42,742,510	38,445,753
Rent	18	10,439,588	9,783,136
Provision for probable losses	10	8,153,093	5,747,925
Taxes and licenses		3,985,973	5,120,236
Utilities		3,521,377	3,533,786
Depreciation and amortization	9	2,980,754	2,051,051
Insurance		2,123,012	1,761,520
Transportation and travel		1,715,796	1,911,756
Representation		1,403,849	4,637,538
Janitorial services		1,337,530	1,067,469
Office supplies		939,138	1,090,762
Repair and maintenance		739,313	587,441
Professional fees		530,246	2,101,384
Management fee	11	-	60,000,000
Impairment loss on creditable withholding taxes	8	-	4,426,092
Miscellaneous		1,568,956	119,474
		P270,211,131	P229,755,167

## 16. Other Income (Charges) - net

This account consists of:

	<i>Note</i>	2018	2017
Interest expense	11, 12	(P19,539,850)	(P3,719,770)
Foreign exchange losses - net	20	(1,044,792)	(791,464)
Bank charges		(397,461)	(632,271)
Interest income	5	354,578	80,816
		(P20,627,525)	(P5,062,689)

## 17. Retirement Benefits

The Company has an unfunded, non-contributory, defined benefits retirement plan covering all of its regular and full-time employees. Costs are determined in accordance with the actuarial studies made for the plan. Under the plan, the employees are entitled to retirement benefits equivalent to an amount computed based on Republic Act No. 7641, Retirement Pay Law, equivalent to one-half month's salary for every year of service, with six (6) months or more of service considered as one year.



The succeeding tables summarize the components of retirement benefits cost under a defined benefits retirement plan recognized in profit or loss and the amount of retirement benefits liability recognized in the statements of financial position. Costs are determined in accordance with the actuarial studies made for the plan. Annual cost is determined using the projected unit credit method. The Company's latest actuarial valuation date is December 31, 2018.

The table below shows the present value of defined benefits retirement obligation/retirement benefits liability and its components as at December 31, 2018:

	2018	2017
<b>Balance at beginning of year</b>	<b>P14,233,985</b>	P11,960,102
<b>Recognized in Profit or Loss</b>		
Current service cost	581,737	1,630,430
Interest expense	765,789	643,453
	<b>1,347,526</b>	2,273,883
<b>Included in Other Comprehensive Income</b>		
Actuarial loss (gain) arising from:		
Financial assumptions	(3,614,998)	-
Demographic assumptions	(6,234,701)	-
Experience adjustments	830,744	-
	<b>(9,018,955)</b>	-
<b>Balance at end of year</b>	<b>P6,562,556</b>	P14,233,985

The retirement benefits costs is recognized as part of "Salaries, wages, and other employee benefits" under "Operating expenses" in profit or loss.

The plan exposes the Company to actuarial risks such as interest rate risk, longevity risk and salary risk as follows:

*Interest Risk*

The present value of the defined benefits obligation is calculated using a discount rate determined by reference to market yields to government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation.

*Longevity and Salary Risks*

The present value of the defined benefits obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

The principal actuarial assumptions (in percentages) as at December 31 used to determine retirement benefits are as follows:

	2018	2017
Discount rate	7.50%	5.38%
Salary increase rate	8.00%	8.00%

Assumptions for mortality and disability rates are based on published statistics and mortality and disability tables.

The weighted average duration of the benefit payments is approximately 7.7 years as at December 31, 2018.

Sensitivity Analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefits obligation by the amounts shown below:

	2018		2017	
	Defined Benefits Obligation 1 Percent Increase	Defined Benefits Obligation 1 Percent Decrease	Defined Benefits Obligation 1 Percent Increase	Defined Benefits Obligation 1 Percent Decrease
Discount rate	(P476,084)	P535,575	(P908,128)	P623,449
Future salary growth	527,757	(478,187)	1,281,059	(996,379)

Although the analysis does not take into account the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumption shown.

It should be noted that in the event a benefit claim arises under that plan, the benefits shall be due and payable from the Company.

Funding Arrangements

The plan is unfunded and non-contributory. Benefit claims under the defined benefits retirement obligation are paid directly by the Company when they become due.

Asset-liability Matching (ALM)

The Company does not perform any ALM study. The Company has no plan assets to match against liabilities under the retirement plan.

Maturity analysis of the expected future benefit payments is as follows:

	2018				
	Carrying Amount	Contractual Cash Flows	Within 1 Year	Within 1-5 Years	More than 5 Years
Defined benefits obligation	P6,662,566	P10,040,408	P -	P708,262	P9,332,144

	2017				
	Carrying Amount	Contractual Cash Flows	Within 1 Year	Within 1-5 Years	More than 5 Years
Defined benefits obligation	P14,233,985	P14,745,978	P -	P745,385	P14,000,591

**18. Operating Lease Agreements**

Company as Lessee

- a. The Company leases from an entity under common control its office space with total area of 408.5 square meters for a term of three (3) years until July 15, 2018, renewable under terms and condition agreed upon by both parties. This lease agreement was subsequently renewed for three (3) years from July 16, 2018 to July 16, 2021 (see Note 11).

- b. On February 20, 2015, the Company entered into a lease agreement with a third party for a covered warehouse and office building located at 3270 Gasanco Compound, Merville Annex Road, Pasay City for a term of five (5) years from April 1, 2015 to March 31, 2020, renewable upon agreement by both parties. Escalation rate is 5% starting second year and 10% starting fourth year.

The lease agreements provide for, among others, security deposits amounting to P2,807,854 and P2,322,120 as at December 31, 2018 and 2017, respectively, which are shown as "Refundable deposits" in the statements of financial position.

Total rent expense on the above-mentioned lease agreements recognized in profit or loss amounted to P10,439,588 and P9,783,136 in 2018 and 2017, respectively (see Note 15).

Future minimum lease payments under non-cancellable operating leases as at December 31 are as follows:

	2018	2017
Within one year	P11,420,158	P9,155,648
After one year <b>but not more than five years</b>	<b>6,886,789</b>	11,853,622
	<b>P18,306,947</b>	P21,009,270

## 19. Income Taxes

The components of provision for income tax are shown below:

	2018	2017
Current	P14,611,435	P41,834,381
Deferred	(476,544)	193,350
	<b>P14,134,891</b>	P42,027,731

Current provision for income tax represents regular corporate income tax in 2018 and 2017.

The reconciliation of the provision for income tax computed at the statutory income tax rate and the provision for income tax shown in profit or loss for the years ended December 31 is as follows:

	2018	2017
Income before income tax	P66,348,503	P146,418,195
Provision for income tax computed at the statutory tax rate of 30%	19,901,301	P43,925,458
Reductions in income taxes resulting from the tax effects of:		
Interest income subjected to final tax	(106,373)	(24,245)
Other adjustments	(5,660,037)	(1,873,482)
Provision for income tax	<b>P14,134,891</b>	P42,027,731

The components of the Company's deferred income tax assets are as follows:

	2018	2017
Retirement benefits liability	P1,968,768	P4,270,196
Allowance for expected credit losses on trade receivables	786,277	786,277
Unrealized foreign exchange losses	294,968	222,683
	<b>P3,050,013</b>	<b>P5,279,156</b>

The movements of net deferred income tax assets are accounted for as follows:

	2018	2017
Amount charged to profit or loss	P476,544	(P193,350)
Amount charged to OCI relating to remeasurement of defined benefits plan	(2,705,687)	-
Net decrease in deferred income tax assets	<b>(P2,229,143)</b>	<b>(P193,350)</b>

## 20. Financial Risk and Capital Management Objectives and Policies

### Objectives and Policies

The Company's BOD has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's financial instruments comprise of cash in banks, trade and other receivables, refundable deposits, trade and other payables, due to related parties, loan payable and dividend payable.

The main objectives of the Company's financial risk management are as follows:

- to identify and monitor such risks on an ongoing basis;
- to minimize and mitigate such risks; and
- to provide a degree of certainty about costs.

The Company's finance and treasury functions operate as a centralized service for managing financial risks and activities as well as providing optimum investment yield and cost-efficient funding for the Company.

The Company has exposure to the following risks from its use of financial instruments:

- Credit Risk
- Liquidity Risk
- Market Risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risks, and the Company's management of capital.

There were no changes in the exposures to each of the above risks and to the Company's objectives, policies and processes for measuring and managing the risk from the previous period. The policies for managing specific risks are summarized below:

### Credit Risk

Credit risk represents the risk of loss the Company would incur if credit customers and counterparties fail to perform their contractual obligations. The Company's credit risk arises from the Company's use of its financial assets. Credit risk management involves entering into financial transactions only with counterparties with acceptable credit rating.

The carrying amount of financial assets represents the maximum credit exposure to credit risk as at December 31 as follows:

	<u>Note</u>	<u>2018</u>	<u>2017</u>
Cash in banks	5	P130,655,881	P73,614,333
Trade and other receivables - net	6	796,755,289	761,984,325
Refundable deposits	18	2,807,854	2,322,120
		<b>P930,219,024</b>	<b>P837,920,778</b>

As at December 31, 2018 and 2017, the aging per class of financial assets is as follows:

### December 31, 2018

	<u>Neither Past Due nor Impaired</u>	<u>Past Due but not Impaired</u>			<u>Impaired</u>	<u>Total</u>
		<u>1 to 30 Days</u>	<u>31 to 60 Days</u>	<u>More than 60 Days</u>		
Cash in banks	P130,655,881	P -	P -	P -	P -	P130,655,881
Trade and other receivables	504,681,127	121,565,128	47,812,232	122,696,802	2,620,922	799,376,211
Refundable deposits	2,807,854	-	-	-	-	2,807,854
	<b>P638,144,862</b>	<b>P121,565,128</b>	<b>P47,812,232</b>	<b>P122,696,802</b>	<b>P2,620,922</b>	<b>P932,839,946</b>

### December 31, 2017

	<u>Neither Past Due nor Impaired</u>	<u>Past Due but not Impaired</u>			<u>Impaired</u>	<u>Total</u>
		<u>1 to 30 Days</u>	<u>31 to 60 Days</u>	<u>More than 60 Days</u>		
Cash in banks	P73,614,333	P -	P -	P -	P -	P73,614,333
Trade and other receivables	384,908,023	101,444,794	31,283,038	244,348,470	2,620,922	764,805,247
Refundable deposits	2,322,120	-	-	-	-	2,322,120
	<b>P460,844,476</b>	<b>P101,444,794</b>	<b>P31,283,038</b>	<b>P244,348,470</b>	<b>P2,620,922</b>	<b>P840,541,700</b>

Based on the historical default rates, the Company believes other than the specifically impaired trade and other receivables, no additional allowance for expected credit losses is necessary in respect of trade and other receivables that are past due but not impaired because such accounts relate to customers that have good payment records with the Company. On the other hand, the Company believes that no impairment loss is necessary in respect of other financial assets since they are neither past due nor impaired.

The Company's policy is to enter into transactions with a diversity of credit worthy parties to mitigate any significant concentration of credit risk. There is no significant concentration of credit risk within the Company.

As at December 31, 2018 and 2017, the Company does not expect any counterparty, other than trade customers, to fail in meeting its obligations, thus, related risk is deemed to be insignificant.



### *Credit Quality*

In monitoring and controlling credit extended to counterparty, the Company adopts a comprehensive credit rating system based on financial and nonfinancial assessments of its customers. Financial factors being considered comprised of the financial standing of the customer while the nonfinancial aspects include but are not limited to the assessment of the customer's nature of business, management profile, industry background, payment habit and both present and potential business dealings with the Company.

The credit quality of the Company's financial assets that are neither past due nor impaired as at December 31, 2018 and 2017 are as follows:

	December 31, 2018			Total
	High Grade	Standard Grade	Substandard Grade	
Cash in banks	P130,655,881	P -	P -	P130,655,881
Trade and other receivables	-	504,681,127	-	504,681,127
Refundable deposits	-	2,807,854	-	2,807,854
Total	P130,655,881	P507,488,981	P -	P638,144,862

	December 31, 2017			Total
	High Grade	Standard Grade	Substandard Grade	
Cash in banks	P73,614,333	P -	P -	P73,614,333
Trade and other receivables	-	384,908,023	-	384,908,023
Refundable deposits	-	2,322,120	-	2,322,120
Total	P73,614,333	P387,230,143	P -	P460,844,476

The Company assessed the credit quality of the following financial assets that are neither past due nor impaired as follows:

- a. Cash in banks were assessed as high grade since these are deposited in reputable banks with a good credit standing, which have a low probability of insolvency and can be withdrawn anytime. The credit quality of these financial assets is considered to be high grade.
- b. High grade trade and other receivables pertain to those receivables from customers who consistently pay before the maturity date. Standard grade trade and other receivable includes those 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 Company made a persistent effort to collect them are included under substandard grade receivables.
- c. Standard grade for refundable deposits pertains to unsecured rental deposit related to the Company's lease commitment.

### *ECL Assessment as at December 31, 2018*

The Company allocates each exposure to a credit risk on data that are determined to be predictive of the risk of loss (including but not limited to external ratings, audited financial assets, management accounts and cash flow projections and available press information about customers) and applying expected credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default.

In measuring the expected credit losses, the trade and other receivables have been assessed on the collective basis as they pose shared credit risk characteristics. They have been grouped based on the days past due.



The following table provides information about the exposure to credit risk for trade and other receivables as at December 31, 2018:

	December 31, 2018		
	Gross Carrying Amount	Expected Credit Loss Allowance	Credit-impaired
Current (not past due)	P504,681,127	P -	No
1-30 days past due	121,565,128	-	No
31-60 days past due	47,812,232	-	No
61-90 days past due	34,833,626	-	No
91-180 days past due	29,149,660	-	No
181-360 days past due	38,807,876	-	No
More than 360 days past due	22,526,562	2,620,922	Yes
	<b>P799,376,211</b>	<b>P2,620,922</b>	

The Company applies the simplified approach in providing for expected credit losses prescribed by PFRS 9, which permits the use of the lifetime expected loss provision and applies a provision matrix.

The maturity of the Company's receivables is less than one year so the lifetime expected credit losses and the 12-month expected credit losses are similar.

The additional allowance for expected credit losses of trade and other receivables of the Company as a result of the expected credit loss assessment amounted to nil as at December 31, 2018. The application of the expected credit loss rates to the trade and other receivables of the Company did not have a material impact on the financial statements.

Exposures within each credit risk grade are assessed based on delinquency and actual credit loss experience. The Company considered both historical loss rate and forward-looking assumptions. The Company assessed that the impact of forward-looking assumptions is immaterial.

#### Liquidity Risk

The following are the contractual maturities of financial assets and financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

	Carrying Amount	As at December 31, 2018		
		Contractual Cash Flows	Within 1 Year	1 to 5 Years
<b>Financial Assets</b>				
Cash in banks	P130,655,881	P130,655,881	P130,655,881	P -
Trade and other receivables - net	796,755,289	796,755,289	796,755,289	-
Refundable deposits	2,807,854	2,807,854	-	2,807,854
<b>Total</b>	<b>P930,219,024</b>	<b>P930,219,024</b>	<b>P927,411,170</b>	<b>P2,807,854</b>

	As at December 31, 2018			
	Carrying Amount	Contractual Cash Flows	Within 1 Year	1 to 5 Years
<b>Financial Liabilities</b>				
Trade and other payables*	P202,727,675	P202,727,675	P202,727,675	P -
Due to related parties	297,700,000	301,015,599	301,015,599	-
Loan payable	357,000,000	359,782,767	359,782,767	-
Dividend payable	100,000,000	100,000,000	100,000,000	-
<b>Total</b>	<b>P957,427,675</b>	<b>P963,526,041</b>	<b>P963,526,041</b>	<b>P -</b>

\*Excluding provision and payables to government agencies.

	As at December 31, 2017			
	Carrying Amount	Contractual Cash Flows	Within 1 Year	1 to 5 Years
<b>Financial Assets</b>				
Cash in banks	P73,614,333	P73,614,333	P73,614,333	P -
Trade and other receivables - net	761,984,325	761,984,325	761,984,325	-
Refundable deposits	2,322,120	2,322,120	-	2,322,120
<b>Total</b>	<b>P837,920,778</b>	<b>P837,920,778</b>	<b>P835,598,658</b>	<b>P2,322,120</b>

	As at December 31, 2017			
	Carrying Amount	Contractual Cash Flows	Within 1 Year	1 to 5 Years
<b>Financial Liabilities</b>				
Trade and other payables*	P269,989,734	P269,989,734	P269,989,734	P -
Due to related parties	297,700,000	299,590,000	299,590,000	-
Loan payable	50,000,000	50,704,966	50,704,966	-
Dividend payable	100,000,000	100,000,000	100,000,000	-
<b>Total</b>	<b>P717,689,734</b>	<b>P720,284,700</b>	<b>P720,284,700</b>	<b>P -</b>

\*Excluding provision and payables to government agencies.

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

#### Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and other market prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. The Company is subject to various risks, including foreign currency risk and interest rate risk.

#### Foreign Currency Risk

The Company's foreign currency denominated assets and liabilities as at December 31, 2018 and 2017 are as follows:

Currency	As at December 31, 2018				PHP Equivalent
	Financial Assets	Financial Liabilities	Net Foreign Currency Liabilities	Exchange Rate	
USD	-	437,722	(437,722)	52.72	(23,076,704)
GBP	-	8,318	(8,318)	66.73	(555,060)
					(23,631,764)

As at December 31, 2017					
Currency	Financial Assets	Financial Liabilities	Net Foreign Currency Liabilities	Exchange Rate	PHP Equivalent
USD	-	319,405	319,405	49.93	(15,947,892)
EUR	-	238,932	238,932	59.61	(14,242,737)
					(30,190,629)

Net foreign exchange losses recognized in profit or loss amounted to P1,044,792 and P791,464 for the years ended December 31, 2018 and 2017, respectively (see Note 16).

#### *Sensitivity Analysis*

The following table demonstrates sensitivity of cash flows due to changes in foreign exchange rates with all variables held constant.

December 31, 2018		
	Percentage Increase (Decrease) in Foreign Exchange Rates	Effect in Income after Income Tax
USD	5.59%	P902,640 decrease
GBP	- 0.58%	2,237 increase

December 31, 2017		
	Percentage Increase in Foreign Exchange Rates	Effect in Income after Income Tax
USD	0.23%	P26,221 decrease
EUR	15%	1,494,245 decrease

Changes in foreign exchange rates are based on the average of the banks' forecasted closing exchange rates during the first quarter of the following calendar year. A movement in the opposite direction would increase/decrease income before income tax by the same amount, on the basis that all other variables remains constant.

#### Capital Management

The Company's objectives, when managing capital, are to increase the value of stockholders' investment and maintain high growth by applying free cash flows to selective investments that would further the Company's worth. The Company sets strategies with the objective of establishing a versatile and resourceful financial management and capital structure.

The Company defines capital as paid-in capital stock, additional paid-in capital and retained earnings. Other components of equity are excluded from capital for purposes of capital management. Profiles for capital ratios are set in the light of changes in the Company's external environment and the risks underlying the Company's business operations and industry.

The Company is not subject to externally-imposed capital requirements.

## 21. Fair Values of Financial Instruments

### *Cash, Trade and Other Receivables, Trade and Other Payables and Dividends Payable*

The carrying amounts of the Company's cash, trade and other receivables, trade and other payables (excluding provision and payables to government agencies) and dividends payable approximate their fair values due to the short-term maturities of these financial instruments.

### *Refundable Deposits*

The carrying amount of refundable deposit approximates its fair values as the impact of discounting is not significant.

### *Loan Payable and Due to Related Parties*

The estimated fair values of loan payable and due to related parties are based on the present value of expected future cash flows using the applicable market rates for similar types of loans at reporting date. The difference between the carrying amount and fair value of loan payable and due to related parties is considered immaterial by management.

The carrying amounts and estimated fair values of the Company's financial assets and financial liabilities as at December 31, 2018 and 2017 are presented below:

	2018		2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial Assets</b>				
Cash	P130,920,946	P130,920,946	P73,939,731	P73,939,731
Trade and other receivables - net	796,755,289	796,755,289	761,984,325	761,984,325
Refundable deposits	2,807,854	2,800,705	2,322,120	2,316,206
	<b>P930,484,089</b>	<b>P930,476,941</b>	<b>P838,246,176</b>	<b>P838,240,262</b>
	2018		2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial Liabilities</b>				
Trade and other payables	P202,727,675	P202,727,675	P269,989,734	P269,989,734
Due to related parties	297,700,000	301,015,599	297,700,000	299,590,000
Loan payable	357,000,000	359,782,767	50,000,000	50,704,966
Dividends payable	100,000,000	100,000,000	100,000,000	100,000,000
	<b>P957,427,675</b>	<b>P963,526,041</b>	<b>P717,689,734</b>	<b>P720,284,700</b>

## 22. Reconciliation Between the Opening and Closing Balances for Liabilities Arising from Financing Activities

The reconciliation of movements of liabilities to cash flows arising from financing activities are as follow:

	December 31, 2018		
	Loan Payable	Accrued Interest	Total
Balances at beginning of year	P50,000,000	P787,500	P50,787,500
<b>Cash Flows from Financing Activities</b>			
Proceeds from availment of loan payable	437,000,000	-	437,000,000
Payments of loan payable	(130,000,000)	-	(130,000,000)
Interest expense	16,224,251	3,315,599	19,539,850
Interest paid	(16,224,251)	-	(16,224,251)
	P357,000,000	P4,103,099	P361,103,099
	December 31, 2017		
	Loan Payable	Accrued Interest	Total
Balances at beginning of year	P70,000,000	P787,500	P70,787,500
<b>Cashflows from financing activities</b>			
Payments of loan payable	(20,000,000)	-	(20,000,000)
Interest expense	-	3,719,770	3,719,770
Interest paid	-	(3,719,770)	(3,719,770)
	P50,000,000	P787,500	P50,787,500

## 23. Subsequent Events

### *Effects of Corona Virus Disease 2019 (COVID-19)*

On March 8, 2020, under Proclamation 922, the President of the Philippines (the "President") has declared a state of public health emergency due to the spread of the Corona Virus Disease 2019 (COVID-19) in the country. Subsequently on March 16, 2020, under Proclamation 929, the previously declared state of public health emergency was upgraded into a state of calamity. To manage the spread of the COVID-19, the entire Luzon has been placed under an Enhanced Community Quarantine (ECQ), effective from March 17, 2020 until April 12, 2020, which was further extended to May 15, 2020. During the ECQ, a strict home quarantine is implemented in all households, all public transportation are suspended, provision for food and essential health services is regulated and the presence of uniformed military personnel to enforce quarantine procedures is heightened. Liquor bans have also been implemented in several areas under ECQ wherein drinking alcoholic beverages in public areas is prohibited and retail stores are only allowed to sell the same during a limited time in the day. On May 16, 2020 onwards, the Philippine government placed different areas of the country either Modified Enhanced Community Quarantine (MECQ) or General Community Quarantine (GCQ), depending on the assessed risk. Several local government units lifted the liquor bans under MECQ and GCQ, subject to certain restrictions. Since the Company's primary operation is the importation and distribution of wines and spirits, the Company was only able to operate limitedly amidst the quarantine period. Moreover, the Company continues to have a skeletal workforce to oversee and make sure facilities, vital equipment, sanitation and security are adequately and properly maintained.



The Company has assessed that the ECQ being implemented by the government will have a potential unfavorable impact on the Company's revenues including the collection of its receivables, among others. However, the quantitative impact of this event on the Company's financial performance for the succeeding quarters is not yet determinable at this date. Nonetheless, the expected decline in operations does not pose a material uncertainty on the Company's ability to continue as a going concern.

*Purchase of Pernod Shares*

In February 2019, the Company engaged in a Shareholders' Agreement and a Share Purchase Agreement with Pernod Ricard Asia S.A.S and Allied Netherlands B.V. for the purchase of 30% shares of Pernod Ricard Philippines, Inc. (Pernod).

**24. Supplementary Information Required by the Bureau of Internal Revenue (BIR) under Revenue Regulations No. 15-2010**

In addition to the disclosures mandated under PFRS, and such other standards and/or conventions as may be adopted, companies are required by the BIR to provide in the notes to financial statements, certain supplementary information for the taxable year. The amounts relating to such information may not necessarily be the same with those amounts disclosed in the financial statements which were prepared in accordance with PFRS. The following are the tax information required for the taxable year ended December 31, 2018:

**a. VAT**

1. Output VAT	P278,163,377
<i>Account title used:</i>	
Basis of the Output VAT:	
Vatable sales	P2,318,028,144
Zero rated sales	50,552,746
Total sales	P2,368,580,890
2. Input VAT	
Beginning of year	P7,756,548
Current year's domestic purchases:	
a. Goods for resale/manufacture or further processing	248,831,639
b. Goods other than for resale or manufacture	-
c. Services lodged under other accounts	14,237,140
VAT payments and other adjustments	20,400,443
VAT credits used	(278,163,377)
Balance at end of year	P13,062,393

**b. Customs Duties and Tariff Fees**

Landed cost of imports	P1,186,034,758
Customs duties and tariff fees paid or accrued	88,004,034
	P1,274,038,792

**c. Excise Taxes**

Imported excisable items wines and liquor	P222,541,195
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**d. Documentary Stamp Tax**

On borrowings	P2,394,175
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**e. Withholding Taxes**

Tax on compensation and benefits	P4,449,592
Expanded withholding taxes	5,260,685
	P9,710,277

**f. All Other Taxes (Local and National)**

*Other taxes paid during the year recognized under  
"Taxes and licenses" Account under Operating  
Expenses*

License and permit fees	P1,170,301
Others	421,497
	P1,591,798

**g. Tax Cases and Assessments**

On June 14, 2018, the Company received a Preliminary Assessment Notice (PAN) covering Income Tax, Value Added Tax, Withholding Tax on Compensation and Documentary Stamp Tax for the taxable year 2017. The initial deficiency assessment based on preliminary investigation amounted to P7 million. The Company paid the deficiency tax in 2018.

Information on tariff fees paid or accrued, are not applicable since the Company did not enter into transactions which will result to payment of accrual of such taxes.



**STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR ANNUAL INCOME TAX RETURN**

The Management of **Premier Wine and Spirits, Inc.** ("the Company") is responsible for all information and representations contained in the Annual Income Tax Return for the year ended December 31, 2017. Management is likewise responsible for all information and representations contained in the financial statements accompanying the Annual Income Tax Return covering the same reporting period. Furthermore, the Management is responsible for all information and representations contained in all the other tax returns filed for the reporting period, including, but not limited, to the value added tax returns, withholding tax returns, documentary stamp tax returns, and any and all other tax returns.

In this regard, the Management affirms that the attached audited financial statements for the year ended December 31, 2017 and the accompanying Annual Income Tax Return are in accordance with the books and records of **Premier Wine and Spirits, Inc.**, complete and correct in all material respects. Management likewise affirms that:

- (a) the Annual Income Tax Return has been prepared in accordance with the provisions of the National Internal Revenue Code, as amended, and pertinent tax regulations and other issuances of the Department of Finance and the Bureau of Internal Revenue;
- (b) any disparity of figures in the submitted reports arising from the preparation of financial statements pursuant to financial accounting standards and the preparation of the income tax return pursuant to tax accounting rules has been reported as reconciling items and maintained in the company's books and records in accordance with the requirements of Revenue Regulations No. 8-2007 and other relevant issuances;
- (c) **Premier Wine and Spirits, Inc.** has filed all applicable tax returns, reports and statements required to be filed under Philippine tax laws for the reporting period, and all taxes and other impositions shown thereon to be due and payable have been paid for the reporting period, except those contested in good faith.

A large, stylized handwritten signature in black ink, appearing to read "J. Santamarina".

JOSE PAULINO SANTAMARINA  
Chairman of the Board/President

A handwritten signature in black ink, appearing to read "R. Co Chua".

ROBIN DERRICK CO CHUA  
Managing Director

A handwritten signature in black ink, appearing to read "E. Binanitan".

EVELYN B. BINANITAN  
Treasurer



Signed this 19th day of November 2020

**Premier Wine & Spirits, Inc.**

Gate 2 900 N. Romualdez St. Paco Manila Tel. No. 524-2117/524-2165 Fax. No. 521-6628



R.G. Manabat & Co.  
The KPMG Center, 9/F  
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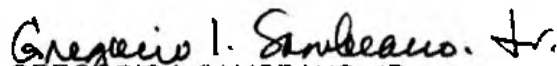
**REPORT OF INDEPENDENT AUDITORS  
TO ACCOMPANY FINANCIAL STATEMENTS FOR FILING  
WITH THE BUREAU OF INTERNAL REVENUE**

The Board of Directors and Stockholders  
**Premier Wine and Spirits, Inc.**  
Gate 1, Tabacalera Compound  
900 D. Romualdez Street  
Paco, Manila

We have audited the accompanying financial statements of Premier Wine and Spirits, Inc. (the "Company"), a wholly-owned subsidiary of Cosco Capital, Inc., for the year ended December 31, 2017, on which we have rendered our report dated November 27, 2020.

In compliance with Revenue Regulations V-20, we are stating that no partner of our Firm is related by consanguinity or affinity to the president, manager or principal stockholders of the Company.

**R.G. MANABAT & CO.**

  
GREGORIO I. SAMBRANO, JR.  
Partner

CPA License No. 088825  
SEC Accreditation No. 1548-AR-1, Group A, valid until December 17, 2021  
Tax Identification No. 152-885-329  
BIR Accreditation No. 08-001987-36-2018  
Issued September 20, 2018, valid until September 19, 2021  
PTR No. MKT 8116783  
Issued January 2, 2020 at Makati City

November 27, 2020  
Makati City, Metro Manila

Firm Regulatory Registration & Accreditation:  
PRC-BOA Registration No. 0003, valid until November 27, 2023  
SEC Accreditation No. 0003-SEC, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by SEC Accreditation No. 0004-FR-5)  
IC Accreditation No. 0003 IC, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by IC Circular Letter (CL) No. 2019-39, Transition clause)  
BSP Accreditation No. 0003-BSP, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by BSP Monetary Board Resolution No. 2161, Transition clause)



R.G. Manabat & Co.  
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## REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders  
**Premier Wine and Spirits, Inc.**  
Gate 1, Tabacalera Compound  
900 D. Romualdez Street  
Paco, Manila

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of Premier Wine and Spirits, Inc. (the "Company"), a wholly-owned subsidiary of Cosco Capital, Inc., which comprise the statements of financial position as at December 31, 2017 and 2016, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended 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 Auditors' Responsibilities for the Audits 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 the 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.



Firm Regulatory Registration & Accreditation:  
PRC-BOA Registration No. 0003, valid until November 21, 2023  
SEC Accreditation No. 0003 SEC, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by SEC Accreditation No. 0004-FR-5)  
IC Accreditation No. 0003-IC, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by IC Circular Letter (CL) No. 2019-39, Transition clause)  
BSP Accreditation No. 0003-BSP, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2018 financial statements are covered by BSP Monetary Board Resolution No. 2161, Transition clause)



### *Responsibilities of Management and the Board of Directors for the Financial Statements*

Management is responsible for the preparation and fair presentation of the 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.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

### *Auditors' Responsibilities for the Audits of the 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 auditors' 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, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSA, we exercise professional judgment and maintain professional skepticism throughout the audits. 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 auditors' 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 auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.



- 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 the Board of Directors and management 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.

**Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010 of the Bureau of Internal Revenue**

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 24 to financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**R.G. MANABAT & CO.**

*Gregorio I. Sambrano Jr.*  
GREGORIO I. SAMBRANO, JR.

Partner

CPA License No. 088825

SEC Accreditation No. 1548-AR-1, Group A, valid until December 17, 2021

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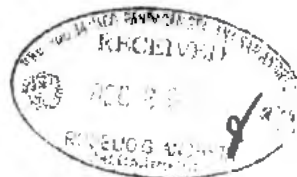
Issued September 20, 2018, valid until September 19, 2021

PTR No. MKT 8116783

Issued January 2, 2020 at Makati City

November 27, 2020

Makati City, Metro Manila





**PREMIER WINE AND SPIRITS, INC.**  
**(A Wholly-owned Subsidiary of Cosco Capital, Inc.)**  
**STATEMENTS OF FINANCIAL POSITION**

		December 31	
	Note	2017	2016
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash	5	P73,939,731	P14,520,760
Trade and other receivables - net	6, 11	761,984,325	750,313,182
Inventories	7, 14	694,796,560	517,568,072
Prepaid expenses and other current assets	8	67,150,176	92,894,339
<b>Total Current Assets</b>		<b>1,597,870,791</b>	<b>1,375,296,353</b>
<b>Noncurrent Assets</b>			
Property and equipment - net	9	3,478,931	4,489,690
Deferred income tax assets	19	5,279,156	5,472,506
Refundable deposits	18	2,322,120	2,207,120
<b>Total Noncurrent Assets</b>		<b>11,080,207</b>	<b>12,169,316</b>
		<b>P1,608,950,998</b>	<b>P1,387,465,669</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Trade and other payables	10, 11	P286,012,987	P193,108,934
Due to related parties	11	297,700,000	239,500,000
Dividends payable	13	100,000,000	100,000,000
Loan payable	12	50,000,000	70,000,000
Income tax payable		24,366,430	40,649,501
<b>Total Current Liabilities</b>		<b>758,079,417</b>	<b>643,258,435</b>
<b>Noncurrent Liability</b>			
Retirement benefits liability	17	14,233,985	11,960,102
<b>Total Liabilities</b>		<b>772,313,402</b>	<b>655,218,537</b>
<b>Equity</b>			
Capital stock - P100 par value:			
Authorized, issued and outstanding -			
1,500,000 shares		150,000,000	150,000,000
Additional paid-in capital		1,500,000	1,500,000
Retained earnings		685,472,457	581,081,993
Accumulated remeasurements on retirement benefits		(334,861)	(334,861)
<b>Total Equity</b>		<b>836,637,596</b>	<b>732,247,132</b>
		<b>P1,608,950,998</b>	<b>P1,387,465,669</b>



See Notes to Financial Statements.

**PREMIER WINE AND SPIRITS, INC.**  
**(A Wholly-owned Subsidiary of Cosco Capital, Inc.)**  
**STATEMENTS OF COMPREHENSIVE INCOME**

		Years Ended December 31	
	Note	2017	2016
<b>NET SALES</b>	11	P2,025,391,666	P1,800,926,922
<b>COST OF GOODS SOLD</b>	14	1,644,155,615	1,455,222,626
<b>GROSS PROFIT</b>		381,236,051	345,704,296
<b>OPERATING EXPENSES</b>	15	229,755,167	158,579,734
<b>INCOME FROM OPERATIONS</b>		151,480,884	187,124,562
<b>OTHER INCOME (CHARGES) - Net</b>	16	(5,062,689)	3,368,825
<b>INCOME BEFORE INCOME TAX</b>		146,418,195	190,493,387
<b>PROVISION FOR INCOME TAX</b>	19	42,027,731	57,135,036
<b>NET INCOME</b>		104,390,464	133,358,351
<b>OTHER COMPREHENSIVE INCOME</b>			
<i>Item that will never be reclassified to profit or loss in subsequent periods</i>			
Remeasurement gain on retirement benefits	17	-	580,577
Deferred income tax expense	19	-	(174,173)
		-	406,404
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>P104,390,464</b>	<b>P133,764,755</b>

*See Notes to Financial Statements.*



**PREMIER WINE AND SPIRITS, INC.**  
**(A Wholly-owned Subsidiary of Cosco Capital, Inc.)**  
**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	Capital Stock	Additional Paid-in Capital	Accumulated Remeasurements on Retirement Benefits	Retained Earnings (Note 13)	Total
<b>Balances at December 31, 2015</b>	P150,000,000	P1,500,000	(P741,265)	P447,723,642	P598,482,377
Net income for the year	-	-	-	133,358,351	133,358,351
Other comprehensive income	-	-	406,404	-	406,404
Total comprehensive income	-	-	406,404	133,358,351	133,764,755
<b>Balances at December 31, 2016</b>	150,000,000	1,500,000	(334,861)	581,081,993	732,247,132
Net income for the year	-	-	-	104,390,464	104,390,464
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	104,390,464	104,390,464
<b>Balances at December 31, 2017</b>	P150,000,000	P1,500,000	(P334,861)	P685,472,457	P836,637,596

*See Notes to Financial Statements.*

**PREMIER WINE AND SPIRITS, INC.**  
**(A Wholly-owned Subsidiary of Cosco Capital, Inc.)**  
**STATEMENTS OF CASH FLOWS**

		Years Ended December 31	
	Note	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax		P146,418,195	P190,493,387
Adjustments for:			
Provision for probable losses	10, 15	5,747,925	-
Impairment losses on creditable withholding taxes	15	4,426,092	-
Interest expense	11, 12, 16, 22	3,719,770	3,489,167
Retirement benefits costs	17	2,273,883	517,860
Depreciation and amortization	9	2,051,051	1,641,539
Unrealized foreign exchange losses - net		742,274	2,941,033
Interest income	5, 16	(80,816)	(73,654)
Operating income before working capital changes		<b>165,298,374</b>	<b>199,009,332</b>
Decrease (increase) in:			
Trade and other receivables		(11,671,143)	(220,870,558)
Inventories		(177,228,488)	57,526,196
Prepaid expenses and other current assets		21,318,072	(55,487,108)
Refundable deposits		(115,000)	(70,323)
Increase in:			
Trade and other payables		86,413,854	54,395,585
Due to related parties		58,200,000	48,342,500
Cash generated from operations		<b>142,215,669</b>	<b>82,845,624</b>
Income taxes paid		(58,117,452)	(65,213,750)
Interest paid	22	(3,719,770)	(3,331,667)
Interest received	5, 16	80,816	73,654
Net cash from operating activities		<b>80,459,263</b>	<b>14,373,861</b>
<b>CASH FLOWS FROM AN INVESTING ACTIVITY</b>			
Additions to property and equipment	9	(1,040,292)	(2,270,175)
<b>CASH FLOWS FROM A FINANCING ACTIVITY</b>			
Payments of loan payable	22	(20,000,000)	(30,000,000)
<b>NET INCREASE (DECREASE) IN CASH</b>		<b>59,418,971</b>	<b>(17,896,314)</b>
<b>CASH AT BEGINNING OF YEAR</b>		<b>14,520,760</b>	<b>32,417,074</b>
<b>CASH AT END OF YEAR</b>	5	<b>P73,939,731</b>	<b>P14,520,760</b>

*See Notes to Financial Statements.*

**PREMIER WINE AND SPIRITS, INC.**  
**(A Wholly-owned Subsidiary of Cosco Capital, Inc.)**  
**NOTES TO FINANCIAL STATEMENTS**

---

**1. Reporting Entity**

Premier Wine and Spirits, Inc. (the "Company") was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on June 19, 1996. The Company's primary purpose is to engage in the business of buying, selling, distribution and marketing on a wholesale basis, any and all kinds of beverages, spirits and liquors and to deal in any materials, articles or things required in connection with or incidental to the importation, exportation, manufacturing, marketing or distribution of such products.

The Company is a wholly-owned subsidiary of Cosco Capital, Inc. ("CosCo" or "Parent Company"), a company incorporated in the Philippines. CosCo's shares of stock are listed for trading at the Philippine Stock Exchange (PSE).

The Company's registered office address is at Gate 1, Tabacalera Compound, 900 D. Romualdez Street, Paco, Manila.

**2. Basis of Preparation**

Statement of Compliance

The financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). PFRS which are issued by the Philippine Financial Reporting Standards Council (FRSC), consist of PFRS, Philippine Accounting Standards (PAS), and Philippine Interpretations based on the International Financial Reporting Interpretations Committee (IFRIC) interpretations.

Basis of Measurement

The financial statements have been prepared on the historical cost basis of accounting, except for retirement benefits liability which is measured at the present value of the defined benefits obligation.

Functional and Presentation Currency

The financial statements are measured using the currency of the primary economic environment in which the Company operates. The financial statements are presented in Philippine Peso, which is also the Company's functional currency. All amounts are rounded to the nearest Peso, except when otherwise indicated.

Authorization for Issuance of the Financial Statements

The accompanying financial statements of the Company as at and for the years ended December 31, 2017 and 2016 were approved and authorized for issue by the Board of Directors (BOD) on November 9, 2020.



### 3. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in these financial statements, except for the changes in accounting policies as explained below.

#### Adoption of New or Revised Standards, Amendments to Standards and Interpretations

The Company has adopted the following relevant and applicable amendments to standards starting January 1, 2017 and accordingly, changed its accounting policies.

- *PAS 7, Statement of Cash Flows - Disclosure Initiative (Amendments)*. The amendments address financial statements users' requests for improved disclosures about an entity's net debt relevant to understanding an entity's cash flows. The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes - e.g. by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

The Company provided a reconciliation between the opening and closing balances for liabilities arising from financing activities (see Note 22).

- *PAS 12, Income Taxes - Recognition of Deferred Tax Assets for Unrealized Losses (Amendments)*. The amendments clarify that: (a) the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset; (b) the calculation of future taxable profit in evaluating whether sufficient taxable profit will be available in future periods excludes tax deductions resulting from the reversal of the deductible temporary differences; (c) the estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and (d) an entity assesses a deductible temporary difference related to unrealized losses in combination with all of its other deductible temporary differences, unless a tax law restricts the utilization of losses to deduction against income of a specific type.

The following interpretations and amendments to standards are not expected to have an impact on the Company's financial statements:

- *Annual Improvements to PFRSs 2014 - 2016 Cycle - Clarification of the scope of the standard (Amendments to PFRS 12, Disclosure of Interests in Other Entities)*.

#### Financial Instruments

##### *Date of Recognition*

The Company recognizes a financial asset or a financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases and sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.



#### *Initial Recognition and Classification of Financial Instruments*

Financial instruments are recognized initially at fair value. The initial measurement of financial instruments, except those designated at fair value through profit or loss (FVTPL), includes transaction cost.

On initial recognition, the Company classifies its financial assets in the following categories: financial assets at FVTPL, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. Financial liabilities on the other hand, are classified into the following categories: financial liabilities at FVTPL and other financial liabilities. Management determines the classification of its financial assets and financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at each reporting date.

Financial instruments are classified as liability 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 reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

As at December 31, 2017 and 2016, the Company's financial assets and financial liabilities consist of loans and receivables and other financial liabilities, respectively.

#### *Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivables. After initial measurement, loans and receivables are subsequently carried at cost or amortized cost using the effective interest method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process. Loans and receivables are classified as current assets if maturity is within 12 months from the reporting date or the normal operating cycle, whichever is longer. Otherwise, these are classified as noncurrent assets.

As at December 31, 2017 and 2016, the Company's loans and receivables include cash in banks, trade and other receivables and refundable deposits.

#### *Other Financial Liabilities*

This category pertains to financial liabilities that are not held for trading or not designated as at FVTPL upon the inception of the liability. These include liabilities arising from operations or borrowings (e.g., payables, accruals). Other financial liabilities are initially recognized at fair value, plus directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the amortization process. Financial liabilities are classified as current, except for maturities greater than twelve months after the reporting date. These are classified as noncurrent liabilities.

As at December 31, 2017 and 2016, the Company's other financial liabilities include trade and other payables (excluding provision, payables to government agencies and output VAT - net), due to related parties, dividends payable and loan payable.

#### Impairment of Financial Assets

The Company assesses at each reporting date whether a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the contracted parties or group of contracted parties is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

#### *Loans and Receivables*

The Company first assesses whether an 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. If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as a 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 EIR (i.e., the EIR computed at initial recognition). The carrying amount of the asset shall be reduced through the use of an allowance account, and the amount of the loss shall be recognized in profit or loss.

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 group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

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 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 Financial Liabilities

##### *Financial Assets*

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

- the rights to receive cash flows from the asset have expired;
- the Company retains the rights 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 rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a "pass-through" arrangement and has neither transferred nor retained substantially all the risks and rewards 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 is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to pay.

Where the continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Company's continuing involvement is the amount of the transferred asset that the Company may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on asset measured at fair value, the extent of the Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

#### *Financial Liabilities*

A financial liability is derecognized when the obligation under the liability is discharged or 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 Financial Instruments

Financial assets and financial liabilities are offset and the net amount is 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. This is not generally the case with master netting agreements, and the related assets and liabilities are presented at gross in the statement of financial position.

#### Fair Value Measurement

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 measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to the Company.

The fair value of an asset or a liability is measured using the assumptions that the market participants would use when pricing the asset or liability, assuming that the market participants act in their economic best interest.

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 markets 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 reassessing 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.

As at December 31, 2017 and 2016, no financial asset was recognized at fair value. The Company has no other assets or liabilities with recurring and non-recurring fair value measurements.

#### Inventories

Inventories, which consist of spirits, wines and specialty beverages, are valued at the lower of cost and net realizable value (NRV). Cost is comprised of purchase price, expenditure incurred in acquiring the inventories and other costs incurred in bringing them to their present location and condition. Cost is determined using the first-in, first-out method.

NRV represents the estimated selling price less costs to be incurred in marketing, selling and distribution. In determining the NRV, the Company considers any adjustment necessary to write-down inventories to NRV for slow-moving and near expiry products based on physical inspection and management evaluation.

#### Prepaid Expenses and Other Current Assets

##### *Prepaid Expenses and Advances*

Prepaid expenses and advances represent expenses not yet incurred but already paid in cash. Prepaid expenses and advances are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are charged to profit or loss as these are consumed in operations or expire with the passage of time.

Prepaid expenses and advances are classified in the statement of financial position as current asset when the cost of goods or services related to the prepayment are expected to be incurred within one (1) year from the reporting date. Otherwise, prepayments are classified as noncurrent assets.

#### Value-added Tax (VAT)

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

- where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of VAT included.

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of "Prepaid expenses and other current assets" or "Trade and other payables" in the statement of financial position.

#### Refundable Deposits

Refundable deposits are cash paid for the lease agreements covering the office spaces and warehouse which are expected to be refunded upon the termination of the lease. These are carried at net realizable value and classified as current for leases which will expire within 12 months from the reporting period otherwise, these will be classified as noncurrent.

#### Property and Equipment

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

The initial cost of property and equipment consists of its purchase price, including any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to profit or loss in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of the item of property and equipment.

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

	Number of Years
Transportation and equipment	3
Furniture and fixtures	3
Leasehold improvements	3 or lease term, whichever is shorter
Machinery and equipment	3
Office equipment	3

Depreciation or amortization of an item of property and equipment begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation or amortization ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, and the date the asset is derecognized.



The estimated useful lives and depreciation and amortization method are reviewed periodically to ensure that the periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation is recognized in profit or loss. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and any impairment in value are removed from the accounts and any resulting gain or loss is recognized in the profit or loss.

#### Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. The capitalization of borrowing costs: (i) commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred; (ii) is suspended during the extended periods in which active development, improvement and construction of the assets are interrupted; and (iii) ceases when substantially all the activities necessary to prepare the assets are completed. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds.

Other borrowing costs are recognized as expense in the period in which they are incurred.

#### Impairment of Noncurrent Nonfinancial Assets

The Company assesses at end of each reporting period whether there is an indication that its noncurrent nonfinancial assets which consists of property and equipment may be impaired. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets or the cash generating unit (CGU) are written down to their recoverable amounts. The recoverable amount of the noncurrent nonfinancial assets is the greater of fair value less cost to sell and value-in-use. The fair value less cost to sell is the price that would be received to sell an asset in an orderly transaction between market participants less cost to sell. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs. Impairment losses, if any, are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount on a systemic basis over its remaining useful life.



### Capital Stock

Ordinary or common shares are classified as equity. The proceeds from the issuance of ordinary or common shares are presented in equity as capital stock to the extent of the par value of the issued and outstanding shares and any excess of the proceeds over the par value of the shares issued, less any incremental costs directly attributable to the issuance, net of tax, is presented in equity as additional paid-in capital.

### Retained Earnings

Retained earnings represent the cumulative balance of periodic net income or loss, dividend contributions, correction of prior year errors, effect of changes in accounting policy and other capital adjustments.

### Dividends on Common Shares

Cash and property dividends on common shares are recognized as liability and deducted from equity when approved by the BOD of the Company. Stock dividend declared but not yet issued is presented as "Capital stock dividend distributable" in the statement of financial position. When the stock dividends are declared, the amount of stock dividends are treated as transfers from retained earnings to common shares.

Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date.

### 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 revenue can be reliably measured.

The following specific recognition criteria must also be met before revenue is recognized:

#### *Sale of Goods*

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of value-added tax (VAT), returns, discounts, and rebates. Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing involvement with the goods. Transfer of risks and rewards of ownership coincide with the delivery of the products to the customers, under normal credit terms.

#### *Commission Income*

Commission income is recognized as income at the same time as the costs are incurred which generally coincides upon performance of service.

#### *Interest Income*

Interest income is recognized in profit or loss as it accrues, taking into account the effective yield on the asset.

### Cost and Expense Recognition

#### *Cost of Goods Sold*

Cost of goods sold is recognized when goods are delivered to the buyer. Expenses are recognized upon utilization of services or at the date they are incurred.

### Operating Expenses

Operating expenses are costs incurred to sell or distribute the goods and administering the business. It includes documentation processing and delivery, among others. Operating expenses are expensed as incurred.

### 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 year in accordance with PFRS.

### Employee Benefits

#### Short-term Employee Benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of the past service provided by the employee and the obligation can be estimated reliably.

#### Retirement Benefits Liability and Costs

The Company has an unfunded, non-contributory defined benefits retirement plan covering substantially all permanent, regular, full-time employees. The Company's obligation in respect of the defined benefits is calculated by estimating the amount of the future benefits that employees have earned in the current and prior periods and discounting that amount.

The calculation of defined benefits obligations is performed on a periodic basis by a qualified actuary using the projected unit credit method.

Remeasurements of the retirement benefits liability, which comprise of actuarial gains and losses, are recognized immediately in other comprehensive income. Such remeasurement are also immediately recognized in equity under "Accumulated remeasurements on retirement benefits". The Company determines the interest expense on the retirement benefits liability for the period by applying the discount rate used to measure the defined benefits obligation at the beginning of the annual period to the then retirement benefits liability, taking into account any changes in the retirement benefits liability during the period as a result of benefit payments, if any. Interest expense and other expenses related to defined benefits plans are recognized in profit or loss.

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

### Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after the inception of 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 an extension is 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 specific asset; or
- (d) there is a substantial change to the asset.

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

#### *Company as Lessee*

Leases where the lessors retain substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in profit or loss on a straight-line basis over the lease term. Associated costs such as maintenance and insurance are expensed as incurred.

#### Income Taxes

Provision for income tax is composed of current income tax and deferred income tax. Provision for income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income, in which case, it is recognized directly in equity or in other comprehensive income.

#### *Current Income Tax*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used as basis to compute the amount are those that have been enacted or substantively enacted at the reporting date.

#### *Deferred Income Tax*

Deferred income tax is provided, using the balance sheet liability method, 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 income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that sufficient future taxable profits will allow the deferred income tax asset to be recovered.

Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

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

#### Related Party Transactions and Relationships

Related party relationships exist when the party has the ability to control, directly or indirectly, through one or more intermediaries, or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting entity and its key management personnel, directors or stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely to the legal form. Related parties may be individual or corporate entities.

#### Foreign Currency-denominated Transactions and Translations

Transactions in foreign currencies are recorded using the functional currency exchange rate at the date of transaction. Outstanding monetary assets and monetary liabilities denominated in foreign currencies are translated using the closing exchange rate at the reporting date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

#### Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of the provision to be reimbursed, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss, net of reimbursement. If the effect of the time value of money is material, provisions are discounted using the current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

#### Contingencies

Contingent liabilities are not recognized in the financial statements but are disclosed in the notes to financial statements unless the 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 position at the reporting date (adjusting events) are reflected in the financial statements. Events after the reporting date that are not adjusting events are disclosed in the notes to financial statements when material.

#### Standards Issued But Not Yet Adopted

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2017. However, the Company has not applied the following relevant and applicable new or amended standards in preparing these financial statements. Unless otherwise stated, none of these are expected to have a significant impact on the Company's financial statements.

Effective January 1, 2018

- PFRS 9, *Financial Instruments (2014)*, replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). PFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, guidance on own credit risk on financial liabilities measured at fair value and supplements the new general hedge accounting requirements published in 2013. PFRS 9 incorporates new hedge accounting requirements that represent a major overhaul of hedge accounting and introduces significant improvements by aligning the accounting more closely with risk management.

The adoption of PFRS 9 will have no significant impact on the classification and measurement of the Company's financial assets and financial liabilities at January 1, 2018. Further, future adoption of the new hedge accounting requirements will have no effect on the Company's financial statements since the Company has no transactions eligible for hedge accounting. The Company also assessed that the adoption of this new standard will have no significant impact on the amount of impairment of the Company's financial assets.

- PFRS 15, *Revenue from Contracts with Customers*, replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 18, *Transfer of Assets from Customers*, and SIC-31, *Revenue - Barter Transactions Involving Advertising Services*. The new standard introduces a new revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) a company transfers control of goods or services to a customer at the amount to which the company expects to be entitled. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the company's performance, or at a point in time, when control of the goods or services is transferred to the customer. The standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other PFRS. It also does not apply if two companies in the same line of business exchange non-monetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another PFRS, then the guidance on separation and measurement contained in the other PFRS takes precedence.

The Company assessed that the adoption of PFRS 15 will have no significant impact on the Company's financial statements.

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration* clarifies that the transaction date to be used for translation for foreign currency transactions involving an advance payment or receipt is the date on which the entity initially recognizes the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. The interpretation applies when an entity pays or receives consideration in a foreign currency and recognizes a non-monetary asset or liability before recognizing the related item.

The Company assessed that the new standard will not have a significant impact in terms of the amounts reported in the financial statements. However, upon adoption, the Company will update its disclosure in accordance with the guidance on translation for foreign currency transactions involving advance consideration.



Effective January 1, 2019

- PFRS 16, *Leases* supersedes PAS 17, *Leases* and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements.

Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were also introduced.

Early adoption is permitted. The Company has completed an initial assessment of the potential impact on its financial statements. The actual impact of applying PFRS 16 on the financial statements in the period of initial application will depend on future economic conditions and the Company's latest assessment of whether it will exercise any lease renewal options.

So far, the most significant impact identified is that the Company will recognize new assets and liabilities for the operating lease of its office space and warehouse.

In addition, the nature of expenses related to this lease will now change as PFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use of assets and interest expense on lease liabilities.

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments* clarifies how to apply the recognition and measurement requirements in PAS 12, *Income Taxes* when there is uncertainty over income tax treatments. Under the interpretation, whether the amounts recorded in the financial statements will differ to that in the tax return, and whether the uncertainty is disclosed or reflected in the measurement, depends on whether it is probable that the tax authority will accept the Company's chosen tax treatment. If it is not probable that the tax authority will accept the Company's chosen tax treatment, the uncertainty is reflected using the measure that provides the better prediction of the resolution of the uncertainty - either the most likely amount or the expected value.

The interpretation also requires the reassessment of judgments and estimates applied if facts and circumstances change - e.g. as a result of examination or action by tax authorities. Following changes in tax rules or when a tax authority's right to challenge a treatment expires.

Earlier application is permitted. The interpretation can be initially applied retrospectively applying PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* if possible without the use of hindsight, or retrospectively with the cumulative effect recognized at the date of initial application without restating comparative information.



- PAS 19, *Employee Benefits - Plan Amendment, Curtailment or Settlement (Amendments)* clarify that on amendment, curtailment or settlement of a defined benefit plan, an entity now uses updated actuarial assumptions to determine its current service cost and net interest for the period. The effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income.

The amendments apply for plan amendments, curtailments or settlements that occur on or after the beginning of the first annual reporting period that begins on or after January 1, 2019. Earlier application is permitted.

*Effective January 1, 2020*

- *Amendments to References to Conceptual Framework in PFRS Standards* sets out amendments to PFRS Standards, their accompanying documents and PFRS practice statements to reflect the issuance of the revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework). The 2018 Conceptual Framework includes a new chapter on measurement, guidance on reporting financial performance, improved definitions of an asset and a liability, and guidance supporting these definitions, and clarifications in important areas, such as the roles of stewardships, prudence and measurement uncertainty in financial reporting.

Some Standards, their accompanying documents and PFRS practice statements contain references to, or quotations from, the International Accounting Standards Committee (IASC)'s Framework for the Preparation and Presentation of Financial Statements adopted by the International Accounting Standards Board (IASB) in 2001 or the Conceptual Framework for Financial Reporting issued in 2010. The amendments update some of those references and quotations so that they refer to the 2018 Conceptual Framework, and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

- PAS 1, *Presentation of Financial Statements* and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Material (Amendments)* refine the definition of material. The amended definition of material states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify the definition of material and its application by:
  - (a) raising the threshold at which information becomes material by replacing the term "could influence" with "could reasonably be expected to influence";
  - (b) including the concept of "obscuring information" alongside the concept of "omitting" and "misstating" information in the definition;
  - (c) clarifying that the users to which the definition refers are the primary users of general purpose financial statements referred to in the Conceptual Framework;
  - (d) clarifying the explanatory paragraphs accompany the definition; and
  - (e) aligning the wording of the definition of material across PFRS Standards and other publications.

The amendments are expected to help entities make better materiality judgments without substantively changing existing requirements.

The amendments apply prospectively. Earlier application is permitted.

#### 4. Management's Use of Judgments, Accounting Estimates and Assumptions

The preparation of the financial statements in accordance with PFRS requires management to exercise judgments, make accounting estimates and use assumptions that affect reported amounts of assets, liabilities, income and expenses and related disclosures. Future events may occur which will cause the assumptions used in arriving at the accounting estimates to change. The effects of any change in accounting estimates are reflected in the financial statements as they become reasonably determinable.

Accounting judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

##### Judgments

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

##### *Determination of the Company's Functional Currency*

The Company considers factors, including but not limited to, the currency that mainly influences sales prices of its goods and the currency in which receipts from operating activities are usually retained. Based on the economic substance of the underlying circumstances relevant to the Company, the functional currency has been determined to be the Philippine peso. It is the currency that mainly influences the Company's operations.

##### *Operating Lease -Company as a Lessee*

The Company entered into various lease agreements for its office space and warehouse as a lessee. The Company has determined that the lessors retain all significant risks and rewards of ownership of these properties which are accounted for under operating leases.

##### Accounting Estimates and Assumptions

The key estimates and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below:

##### *Allowance for Impairment Losses on Receivables*

The Company maintains an allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. The Company performs regular review of the age and status of these accounts, designed to identify accounts with objective evidence of impairment and provides these with the appropriate allowance for impairment losses. The review is accomplished using a combination of specific and collective assessment approaches, with the impairment losses being determined for each risk grouping identified by the Company. 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 would increase the recorded general and administrative expenses and decrease current assets.

The carrying values of trade and other receivables amounted to P761,984,325 and P750,313,182 as at December 31, 2017 and 2016, respectively. As at December 31, 2017 and 2016, the Company's allowance for impairment losses on trade receivables amounted P2,620,922 and P3,340,548, respectively (see Note 6).

*Determination of Net Realizable Value (NRV) of Inventories*

The Company's estimates of the NRV of inventories are based on the most reliable evidence available at the time the estimates are made, of the amount that the inventories are expected to be realized. These estimates consider the inventory obsolescence, physical deterioration, fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. A new assessment is made at NRV in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is a clear evidence of an increase in NRV because of changes in economic circumstances, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised NRV.

Management assessed that no allowance to write-down inventories to NRV was necessary as at December 31, 2017 and 2016. The cost of inventories amounted to P694,796,560 and P517,568,072 as at December 31, 2017 and 2016, respectively (see Note 7).

*Estimation of Useful Lives of Property and Equipment*

The Company estimates the useful lives of property and equipment based on the period over which the asset is 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 asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible that future financial performance could be materially affected by changes in these estimates brought about by changes in the factors mentioned. Any reduction in the estimated useful lives of the property and equipment would increase depreciation and amortization expense and decrease noncurrent assets.

The estimated useful lives of property and equipment are discussed in Note 3 to financial statements. There is no change in the Company's estimate of useful lives of property and equipment in 2017 and 2016.

The carrying amounts of property and equipment amounted to P3,478,931 and P4,489,690 as at December 31, 2017 and 2016, respectively. Depreciation and amortization recognized in profit or loss amounted to P2,051,051 and P1,641,539 in 2017 and 2016, respectively (see Notes 9 and 15).

*Impairment of Noncurrent Nonfinancial Assets*

The Company assesses at the end of each reporting period whether there is any indication that its noncurrent nonfinancial assets which pertains to property and equipment are impaired. If any such indication exists, the Company estimates the recoverable amount of these assets. Determining the fair value of these noncurrent nonfinancial asset which requires the determination of the future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Company to make estimates and assumptions that can materially affect the financial statements. Future events could cause management to conclude that these assets are impaired. Any resulting impairment loss could have a material adverse impact on the Company's financial position and financial performance. The preparation of the estimated future cash flows involves significant judgment and estimations. While management believes that the assumptions made are appropriate and reasonable, significant changes in management assumptions may materially affect the assessment of recoverable values and may lead to future additional impairment charges under PFRS.

The carrying amounts of property and equipment amounted to P3,478,931 and P4,489,690 as at December 31, 2017 and 2016, respectively. No impairment loss was recognized for the Company's property and equipment in 2017 and 2016 (see Note 9).

*Estimation of Retirement Benefits Liability and Costs*

The cost of defined benefits retirement plans, as well as the present value of the defined benefits obligation, is determined using actuarial valuations. The actuarial valuations involve making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefits obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting period.

The Company has retirement benefits liability amounting to P14,233,985 and P11,960,102 as at December 31, 2017 and 2016, respectively. (see Note 17).

*Recognition of Deferred Income Tax Assets*

The Company reviews its deferred income tax assets at each reporting date and reduces the carrying amount to the extent that is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. The Company also reviews the expected timing and tax rates upon reversal of temporary differences and adjusts the impact on deferred income tax accordingly. The Company's assessment on the recognition of deferred income tax assets is based on the forecasted taxable income of the subsequent reporting periods. This forecast is based on the Company's past results and future expectations on revenues and expenses. While the Company believes that its assumptions are appropriate and reasonable, significant changes in these assumptions may materially affect the Company's assessment of the realizability of deferred income tax assets and may lead to future addition to the provision for deferred income tax.

The Company has recognized deferred income tax assets amounting to P5,279,156 and P5,472,506 as at December 31, 2017 and 2016, respectively (see Note 19).

*Provisions and Contingencies*

The Company, in the ordinary course of business, sets up appropriate provisions for certain contractual and regulatory obligations, if any, in accordance with its policies on provisions and contingencies. In recognizing and measuring provisions, management takes risk and uncertainties into account.

The Company has recognized a provision for probable losses amounting to P5,747,925 and nil as at December 31, 2017 and 2016, respectively (see Notes 10 and 15).

**5. Cash**

This account consists of:

	<i>Note</i>	2017	2016
Cash on hand		P325,398	P449,598
Cash in banks	20	73,614,333	14,071,162
		<b>P73,939,731</b>	<b>P14,520,760</b>

Cash in banks earns interest at the respective bank deposit rates.



Interest income recognized in profit or loss from bank deposits amounted to P80,816 and P73,654 in 2017 and 2016, respectively (see Note 16).

## 6. Trade and Other Receivables

This account consists of:

	Note	2017	2016
Trade:			
Third parties		P507,965,424	P471,478,157
Related parties	11	219,122,389	137,743,807
Less allowance for impairment losses on trade receivables		(2,620,922)	(3,340,548)
		<b>724,466,891</b>	<b>605,881,416</b>
Nontrade		<b>37,189,362</b>	<b>140,849,339</b>
Others		<b>328,072</b>	<b>3,582,427</b>
	20	<b>P761,984,325</b>	<b>P750,313,182</b>

Trade receivables are unsecured, non-interest-bearing and generally have a 30 to 60 days credit term.

Nontrade receivables pertain to unreimbursed portion of expenses paid in advance by the Company on behalf of its suppliers for brand promotions. These are non-interest-bearing and generally have a 60 to 90 days credit term.

The movement in allowance for impairment losses on trade receivables during the year was as follows:

	2017	2016
Balance at beginning of year	P3,340,548	P3,340,548
Write-off	(719,626)	-
Balance at end of year	<b>P2,620,922</b>	<b>P3,340,548</b>

## 7. Inventories

This account consists of:

	Note	2017	2016
Spirits - at cost		P530,912,055	P381,391,424
Wines - at cost		51,121,349	73,264,237
Specialty beverages - at cost		112,763,156	62,912,411
	14	<b>P694,796,560</b>	<b>P517,568,072</b>

In 2017 and 2016, the inventories amounting to P1,644,155,615 and P1,455,222,626, respectively, were recognized as an expense during the year and included in "Cost of goods sold".

## 8. Prepaid Expenses and Other Current Assets

This account consists of:

	2017	2016
Advances to suppliers	P58,202,844	P92,454,056
Prepaid expenses	1,190,783	440,283
Input VAT on imports	7,756,548	-
	<b>P67,150,175</b>	<b>P92,894,339</b>

Advances to suppliers pertain to initial down payment for purchases of inventories and will be applied against future progress billings.

In 2017, the Company recognized an impairment loss on its unutilized creditable withholding taxes (see Note 15).

## 9. Property and Equipment

The movements and balances in this account are as follows:

	Transportation and Equipment	Furniture and Fixtures	Leasehold Improvements	Machinery and Equipment	Office Equipment	Total
<b>Cost</b>						
December 31, 2015	P17,424,866	P3,882,920	P7,881,631	P1,826,001	P6,769,015	P37,784,433
Additions	43,125	-	964,170	57,143	1,205,737	2,270,175
December 31, 2016	17,467,991	3,882,920	8,845,801	1,883,144	7,974,752	40,054,608
Additions	-	34,141	-	209,806	796,343	1,040,292
December 31, 2017	<b>17,467,991</b>	<b>3,917,061</b>	<b>8,845,801</b>	<b>2,092,952</b>	<b>8,771,095</b>	<b>41,084,900</b>
<b>Accumulated Depreciation</b>						
December 31, 2015	17,424,866	3,683,981	5,980,953	507,717	6,325,862	33,923,379
Depreciation and amortization for the year	11,979	152,814	491,862	394,167	600,717	1,641,539
December 31, 2016	17,436,845	3,836,795	6,462,815	901,884	6,926,579	35,564,918
Depreciation and amortization for the year	14,375	64,891	592,977	443,223	935,565	2,051,051
December 31, 2017	<b>17,451,220</b>	<b>3,901,686</b>	<b>7,055,792</b>	<b>1,345,107</b>	<b>7,862,164</b>	<b>37,615,869</b>
<b>Carrying Amounts</b>						
December 31, 2016	P31,146	P46,125	P2,382,986	P881,260	P1,048,173	P4,489,690
December 31, 2017	<b>P16,771</b>	<b>P15,375</b>	<b>P1,790,009</b>	<b>P747,845</b>	<b>P908,931</b>	<b>P3,478,931</b>

Depreciation and amortization expense in 2017 and 2016 were charged as part of "Operating expenses" in profit or loss.



## 10. Trade and Other Payables

This account consists of:

	Note	2017	2016
Trade payables to third parties	20	P212,714,270	P119,653,681
Nontrade:			
Related parties	11, 20	2,717,707	13,489,119
Third parties	20	39,891,739	47,762,585
Accrued expenses	20	14,666,018	2,426,029
Payables to government agencies		10,275,328	8,349,874
Provision	15	5,747,925	-
Output VAT - net		-	1,427,646
		P286,012,987	P193,108,934

Trade payables are non-interest-bearing and generally have a 30 to 60 days credit term.

Nontrade payables are amounts owed to nontrade suppliers such as manpower agencies, freight companies and other nontrade transactions. These are non-interest-bearing and generally have a 30 to 60 days credit term. These also include interest on advances from the Parent Company.

Accrued expenses consist mainly of accruals for warehousing, salaries and wages, utilities, importation charges and other operating expenses.

In 2017, the Company set-up a provision for any probable liabilities that may arise as a result of conducting its business. The disclosures of additional details beyond the present disclosures may prejudice the Company's position with respect to these matters. Thus, as allowed by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, only a general description is provided.

## 11. Related Party Transactions

Transactions and account balances with related parties as at and for the years ended December 31 are as follows:

Category	Year	Note	Transactions During the Year	Outstanding Balance		Terms	Conditions
				Trade Receivables	Amounts Owed to Related Parties		
<b>Parent Company</b>							
• Advances	2017	a	P -	P -	P105,000,000	Payable on demand on the second year from the date of receipt;	Unsecured
	2016		-	-	105,000,000	annual interest rate of fixed 1.8% on the outstanding balance	
• Interest expense	2017	a, 10	1,890,000	-	787,500		
	2016		1,890,000	-	787,500		
• Management fee	2017	b, 10	60,000,000	-	106,700,000	Due and demandable non-interest-bearing	Unsecured
	2016		50,000,000	-	48,500,000		
<b>Entities under Common Control</b>							
• Advances	2017	c	-	-	88,000,000	Payable on demand, non-interest-bearing	Unsecured
	2016		-	-	88,000,000		
• Sales of goods	2017	d, 6	448,827,816	219,122,389	-	30 to 60-day credit term; non-interest-bearing	Unsecured; no impairment
	2016		429,940,063	137,743,807	-		
• Rent expense	2017	e, 10, 18	2,412,425	-	1,833,298	Demandable, non-interest-bearing	Unsecured
	2016		2,061,293	-	1,053,350		
• Reimbursement of expenses	2017	f, 10	296,911	-	296,811	Payable on demand; non-interest-bearing	Unsecured
	2016		722,433	-	11,648,269		
<b>TOTAL</b>	<b>2017</b>			<b>P219,122,389</b>	<b>P360,417,707</b>		
<b>TOTAL</b>	<b>2016</b>			<b>P137,743,807</b>	<b>P252,989,119</b>		

- a. Cash advances extended from its Parent Company in a form of promissory note. These advances earn annual interest rate of 1.8% with maturities of two (2) years.
- b. The Parent Company provides corporate services to the Company.
- c. These are cash advances from an entity under common control for additional working capital requirements.
- d. In the normal course of business, the Company distributes wines and liquors to entities under common control.
- e. The Company leases its office space from an entity under common control (see Note 18).
- f. This represents advances from officers and related parties in the form of reimbursement of expenses and working capital advances.
- g. The compensation of the key management personnel of the Company, by benefit type, follows:

	2017	2016
Short-term employee benefits	P2,799,844	P6,680,581
Retirement benefits cost	499,841	499,841
	<b>P3,299,685</b>	<b>P7,180,422</b>

As at December 31, 2017 and 2016, amounts owed to related parties are presented as follows:

	<i>Note</i>	2017	2016
Trade and other payables	10	P2,717,707	P13,489,119
Due to related parties		297,700,000	239,500,000
		<b>P300,417,707</b>	<b>P252,989,119</b>

## 12. Loan Payable

This account pertains to unsecured, peso-denominated loans obtained from a local bank with maturity of 90 days with annual interest rate of 2.875% and 2.375% in 2017 and 2016, respectively. This loan is intended to finance the inventory build up and additional working capital requirements of the Company.

This loan is not subject to compliance with any loan covenant.

Interest expenses recognized in profit or loss relating to loan payable amounted to P1,829,770 and P1,599,167 in 2017 and 2016, respectively (see Note 16).

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### 13. Equity

#### Retained Earnings

On December 11, 2015, the Company's BOD approved the declaration of cash dividends amounting to P100 million, payable to stockholders of record as of the same date.

Stock corporations are prohibited from retaining surplus profits in excess of one hundred (100%) percent of their paid-in capital stock, except:

- a. when justified by definite corporate expansion projects or programs approved by the Board of Directors; or
- b. when the corporation is prohibited under any loan agreement with any financial institutions or creditors, whether local or foreign, from declaring dividends without their consent, and such consent has not yet been secured; or
- c. when it can be clearly shown that such retention is necessary under special circumstances of the corporation, such as when there is a need for special reserve for probable contingencies.

As at December 31, 2017, the Company has retained earnings in excess of its paid-up capital. The Company's management plans to apply for an increase in the authorized capital stock of the Company with the SEC in 2020 or 2021 to address the excess retained earnings.

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### 14. Cost of Goods Sold

This account consists of:

	<b>Note</b>	<b>2017</b>	<b>2016</b>
Inventory at beginning of year		P517,568,072	P575,094,268
Net purchases during the year		1,821,384,103	1,397,696,430
Cost of goods available for sale		2,338,952,175	1,972,790,698
Inventory at end of year	7	(694,796,560)	(517,568,072)
		<b>P1,644,155,615</b>	<b>P1,455,222,626</b>

## 15. Operating Expenses

This account consists of:

	<b>Note</b>	<b>2017</b>	<b>2016</b>
Management fee	11	P60,000,000	P50,000,000
Warehousing and delivery		44,860,685	26,232,125
Advertising and samples		42,509,159	16,990,789
Salaries, wages and other employee benefits	17	38,445,753	29,925,766
Rent	18	9,783,136	10,149,729
Provision for probable losses	10	5,747,925	-
Taxes and licenses		5,120,236	5,030,805
Representation		4,637,538	4,754,743
Impairment losses on creditable withholding taxes	8	4,426,092	-
Utilities		3,533,786	3,915,334
Professional fees		2,101,384	1,984,520
Depreciation and amortization	9	2,051,051	1,641,539
Transportation and travel		1,911,756	1,885,972
Insurance		1,761,520	2,141,168
Office supplies		1,090,762	1,420,556
Janitorial services		1,067,469	931,979
Repair and maintenance		587,441	796,963
Miscellaneous		119,474	777,746
		<b>P229,755,167</b>	<b>P158,579,734</b>

## 16. Other Income (Charges) - net

This account consists of:

	<b>Note</b>	<b>2017</b>	<b>2016</b>
Interest expense	11, 12	(P3,719,770)	(P3,489,167)
Foreign exchange losses - net	20	(791,464)	(2,941,033)
Bank charges		(632,271)	(403,077)
Interest income	5	80,816	73,654
Reimbursements of salaries and wages		-	8,281,584
Commission income		-	1,615,944
Others - net		-	230,920
		<b>(P5,062,689)</b>	<b>P3,368,825</b>

Reimbursements of salaries and wages pertain to recovery of expense charged by the Company for promoting the products of its major suppliers.

Commission income is derived from intermediating between other local distributors of wines and liquors and foreign suppliers.

## 17. Retirement Benefits Liability

The Company has an unfunded, non-contributory, defined benefits retirement plan covering all of its regular, full-time employees. Costs are determined in accordance with the actuarial studies made for the plan. Under the plan, the employees are entitled to retirement benefits equivalent to an amount computed based on Republic Act No. 7641, *Retirement Pay Law*, equivalent to one-half month's salary for every year of service, with six (6) months or more of service considered as one year.

The succeeding table summarizes the components of retirement benefits cost under a defined benefits retirement plan recognized in profit or loss and the amount of retirement benefits liability recognized in the statements of financial position. Costs are determined in accordance with the actuarial studies made for the plan. Annual cost is determined using the projected unit credit method. The Company's latest actuarial valuation date is December 31, 2016.

The table below shows the present value of defined benefits retirement obligation/retirement benefits liability and its components as at December 31, 2017:

	2017	2016
<b>Balance at beginning of year</b>	<b>P11,960,102</b>	<b>P12,022,819</b>
<b>Recognized in Profit or Loss</b>		
Current service cost	1,630,430	1,630,430
Interest expense	643,453	508,639
Past service cost	-	(1,621,209)
	<b>2,273,883</b>	<b>517,860</b>
<b>Included in Other Comprehensive Income</b>		
Actuarial gain arising from:		
Financial assumptions	-	(847,445)
Experience adjustments	-	266,868
	-	(580,577)
<b>Balance at end of year</b>	<b>P14,233,985</b>	<b>P11,960,102</b>

The retirement benefits costs is recognized as part of "Salaries, wages, and other employee benefits" under "Operating expenses" in profit or loss.

The plan exposes the Company to actuarial risks such as interest rate risk, longevity risk and salary risk as follows:

### *Interest Risk*

The present value of the defined benefits obligation is calculated using a discount rate determined by reference to market yields to government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation.

### *Longevity and Salary Risks*

The present value of the defined benefits obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.



The principal actuarial assumptions (in percentages) used to determine retirement benefits in 2016 are as follows:

Discount rate	5.38%
Salary increase rate	8.00%

Assumptions for mortality and disability rates are based on published statistics and mortality and disability tables.

The weighted average duration of the benefit payments is approximately 13.9 years as at December 31, 2016.

#### Sensitivity Analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefits obligation by the amounts shown below:

	2017		2016	
	Defined Benefits Obligation		Defined Benefits Obligation	
	1 Percent Increase	1 Percent Decrease	1 Percent Increase	1 Percent Decrease
Discount rate	(P908,128)	P623,449	(P1,494,068)	P1,824,401
Future salary growth	1,281,059	(996,379)	1,631,740	(1,375,534)

Although the analysis does not take into account the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumption shown.

It should be noted that in the event a benefit claim arises under that plan, the benefits shall be due and payable from the Company.

#### Funding Arrangements

The plan is unfunded and non-contributory. Benefit claims under the defined benefits retirement obligation are paid directly by the Company when they become due.

#### Asset-liability Matching

The Company does not perform any ALM study. The Company has no plan assets to match against liabilities under the retirement plan.

Maturity analysis of the benefit payments as at December 31, 2016 follow:

	Carrying Amount	Contractual Cash Flows	2016		
			Within 1 Year	Within 1 - 5 Years	More than 5 Years
Defined benefits obligation	P11,960,102	P14,745,976	P -	P745,385	P14,000,591

## 18. Operating Lease Agreements

#### Company as Lessee

- The Company leases from an entity under common control its office space with total area of 408.5 square meters for a term of three (3) years until July 15, 2018, renewable under terms and condition agreed upon by both parties (see Note 11).



- b. On February 20, 2015, the Company entered into a lease agreement with a third party for a covered warehouse and office building located at 3270 Gasanco Compound, Merville Annex Road, Pasay City for a term of five (5) years from April 1, 2015 to March 31, 2020, renewable upon agreement by both parties. Escalation rate is 5% starting second year and 10% starting fourth year.

The lease agreements provides for, among others, security deposits amounting to P2,322,120 and P2,207,120 as at December 31, 2017 and 2016, respectively, which are shown as "Refundable deposits" in the statements of financial position.

Total rent expense on the above-mentioned lease agreements recognized in profit or loss amounted to P9,783,136 and P10,149,729 in 2017 and 2016, respectively (see Note 15).

Future minimum lease payments under non-cancellable operating leases as at December 31 are as follows:

	2017	2016
Within one year	P9,155,648	P9,626,411
After one year but not more than five years	11,853,622	20,373,175
	<b>P21,009,270</b>	<b>P29,999,586</b>

## 19. Income Taxes

The components of provision for income tax are shown below:

	2017	2016
Current	P41,834,381	P58,074,309
Deferred	193,350	(939,273)
	<b>P42,027,731</b>	<b>P57,135,036</b>

Current income tax represents regular corporate income tax in 2017 and 2016.

The reconciliation of the provision for income tax computed at statutory income tax rate and the provision for income tax shown in profit or loss for the years ended December 31 is as follows:

	2017	2016
Income before income tax	<b>P146,418,195</b>	P190,493,388
Provision for income tax computed at statutory tax rate of 30%	<b>P43,925,458</b>	P57,148,016
Additions to (reductions in) income taxes resulting from the tax effects of:		
Other adjustments	(1,873,482)	9,116
Interest income subjected to final tax	(24,245)	(22,096)
Provision for income tax	<b>P42,027,731</b>	<b>P57,135,036</b>

The components of the Company's deferred income tax assets are as follows:

	2017	2016
Retirement benefits liability	P4,270,196	P3,588,031
Allowance for impairment losses on trade receivables	786,277	1,002,165
Unrealized foreign exchange losses	222,683	882,310
	<b>P5,279,156</b>	<b>P5,472,506</b>

The movements of net deferred income tax asset are accounted for as follows:

	2017	2016
Amount charged to profit or loss	(P193,350)	P939,273
Amount charged to OCI relating to remeasurement on defined benefits plan	-	(174,173)
Increase (decrease) in deferred income tax assets	(P193,350)	P765,100

## 20. Financial Risk and Capital Management Objectives and Policies

### Financial Risk Management Objectives and Policies

The BOD has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's financial instruments comprise of cash in banks, trade and other receivables, refundable deposits, security deposits, trade and other payables, due to related parties, loan payable and dividend payable.

The main objectives of the Company's financial risk management are as follows:

- to identify and monitor such risks on an ongoing basis;
- to minimize and mitigate such risks; and
- to provide a degree of certainty about costs.

The Company's finance and treasury functions operate as a centralized service for managing financial risks and activities as well as providing optimum investment yield and cost-efficient funding for the Company.

The Company has exposure to the following risks from its use of financial instruments:

- Credit Risk
- Market Risk
- Liquidity Risk

### Credit Risk

The investment of the Company's cash resources is managed so as to minimize risk while seeking to enhance yield. The Company's holding of cash in banks, trade and other receivables, and refundable deposits expose the Company to credit risk if the counterparty is unwilling or unable to fulfill its obligations, and the Company consequently suffers financial loss. Credit risk management involves entering into financial instruments only with counterparties with acceptable credit standing. The treasury policy sets aggregate limits of any one counterparty and annually reviews the exposure limits and credit ratings of the counterparties.

The Company has credit management policies in place to ensure that rental contracts are entered into with lessees who have sufficient financial capacity and good credit history. The Company and certain related parties' respective credit management units conduct a comprehensive credit investigation and evaluation of each buyer to establish paying capacity and creditworthiness.

The carrying amount of financial assets represents the maximum credit exposure to credit risk as at December 31 as follows:

	Note	2017	2016
Cash in banks	5	P73,614,333	P14,071,162
Trade and other receivables - net	6	761,984,325	750,313,182
Refundable deposits	18	2,322,120	2,207,120
		<b>P837,920,778</b>	<b>P766,591,464</b>

As at December 31, 2017 and 2016, the aging per class of financial assets is as follows:

#### December 31, 2017

	Neither Past Due nor Impaired	Past Due but not Impaired			Impaired	Total
		1 to 30 Days	31 to 60 Days	More than 60 Days		
Cash in banks	P73,614,333	P -	P -	P -	P -	P73,614,333
Trade and other receivables	384,908,023	101,444,794	31,283,038	244,348,470	2,820,922	764,605,247
Refundable deposits	2,322,120	-	-	-	-	2,322,120
	<b>P460,844,476</b>	<b>P101,444,794</b>	<b>P31,283,038</b>	<b>P244,348,470</b>	<b>P2,820,922</b>	<b>P840,541,700</b>

#### December 31, 2016

	Neither Past Due nor Impaired	Past Due but not Impaired			Impaired	Total
		1 to 30 Days	31 to 60 Days	More than 60 Days		
Cash in banks	P14,071,162	P -	P -	P -	P -	P14,071,162
Trade and other receivables	485,763,235	89,252,841	58,379,819	136,917,487	3,340,548	753,653,730
Refundable deposits	2,207,120	-	-	-	-	2,207,120
	<b>P482,041,517</b>	<b>P89,252,841</b>	<b>P58,379,819</b>	<b>P136,917,487</b>	<b>P3,340,548</b>	<b>P789,932,012</b>

The Company's policy is to enter into transactions with a diversity of credit worthy parties to mitigate any significant concentration of credit risk. There is no significant concentration of credit risk within the Company.

As at December 31, 2017 and 2016, the Company does not expect any counterparty, other than trade customers, to fail to meet their obligations, thus, related risk is deemed to be insignificant.

*Credit Risk Concentration.* The Company's exposure to credit risk arises from default of counterparty. Generally, the maximum credit risk exposure of trade and other receivables is its carrying amount without considering collaterals or credit enhancements, if any. The Company has no significant concentration of credit risk since the Company deals with a large number of customers. The Company does not execute any credit guarantee in favor of any counterparty.

*Credit Quality.* In monitoring and controlling credit extended to counterparty, the Company adopts a comprehensive credit rating system based on financial and nonfinancial assessments of its customers. Financial factors being considered comprised of the financial standing of the customer while the nonfinancial aspects include but are not limited to the assessment of the customer's nature of business, management profile, industry background, payment habit and both present and potential business dealings with the Company.

The credit quality of the Company's financial assets that are neither past due nor impaired as at December 31, 2017 and 2016 are as follows:

	December 31, 2017			Total
	High Grade	Standard Grade	Substandard Grade	
Cash in banks	P73,614,333	P -	P -	P73,614,333
Trade and other receivables	-	384,908,023	-	384,908,023
Refundable deposits	-	2,322,120	-	2,322,120
	<b>P73,614,333</b>	<b>P387,230,143</b>	<b>P -</b>	<b>P460,844,476</b>

	December 31, 2016			Total
	High Grade	Standard Grade	Substandard Grade	
Cash in banks	P14,071,162	P -	P -	P14,071,162
Trade and other receivables	-	465,763,235	-	465,763,235
Refundable deposits	-	2,207,120	-	2,207,120
	<b>P14,071,162</b>	<b>P467,970,355</b>	<b>P -</b>	<b>P482,041,517</b>

The Company assessed the credit quality of the financial assets that are neither past due nor impaired as follows:

- a. Cash in banks were assessed as high grade since these are deposited in reputable banks with a good credit standing, which have a low profitability of insolvency and can be withdrawn anytime. The credit quality of these financial assets is considered to be high grade.
- b. High grade trade and other receivables pertain to those receivables from customers who consistently pay before the maturity date. Standard grade trade and other receivable includes those that are collected on their due dates event without an effort from the Company to follow them up while receivables which are collected on their due dates provided that Company made a persistent effort to collect them are included under substandard grade receivables.
- c. Standard grade for refundable deposits pertains to unsecured rental deposit related to the Company's lease commitment.

### Liquidity Risk

The following are the contractual maturities of financial assets and liabilities, including estimated interest payments and excluding the impact of netting agreements:

	As at December 31, 2017			
	Carrying Amount	Contractual Cash Flows	Within 1 Year	1 to 5 Years
<b>Financial Assets</b>				
Cash in banks	P73,614,333	P73,614,333	P73,614,333	P -
Trade and other receivables - net	761,984,325	761,984,325	761,984,325	-
Refundable deposits	2,322,120	2,322,120	-	2,322,120
	<b>P837,920,778</b>	<b>P837,920,778</b>	<b>P835,598,658</b>	<b>P2,322,120</b>

	As at December 31, 2017			
	Carrying Amount	Contractual Cash Flows	Within 1 Year	1 to 5 Years
<b>Financial Liabilities</b>				
Trade and other payables*	P269,989,734	P269,989,734	P269,989,734	P -
Due to related parties	297,700,000	299,590,000	299,590,000	-
Loan payable	50,000,000	50,704,966	50,704,966	-
Dividend payable	100,000,000	100,000,000	100,000,000	-
	<b>P717,689,734</b>	<b>P720,284,700</b>	<b>P720,284,700</b>	<b>P -</b>

\*Excluding provision and payables to government agencies.

	As at December 31, 2016			
	Carrying Amount	Contractual Cash Flows	Within 1 Year	1 to 5 Years
<b>Financial Assets</b>				
Cash in banks	P14,071,162	P14,071,162	P14,071,162	P -
Trade and other receivables - net	750,313,182	750,313,182	750,313,182	-
Refundable deposits	2,207,120	2,207,120	-	2,207,120
	<b>P766,591,464</b>	<b>P766,591,464</b>	<b>P764,384,344</b>	<b>P2,207,120</b>

	As at December 31, 2016			
	Carrying Amount	Contractual Cash Flows	Within 1 Year	1 to 5 Years
Trade and other payables*	P183,331,414	P183,331,414	P183,331,414	P -
Due to related parties	239,500,000	240,287,500	240,287,500	-
Loan payable	70,000,000	70,815,308	70,815,308	-
Dividend payable	100,000,000	100,000,000	100,000,000	-
	<b>P592,831,414</b>	<b>P594,434,222</b>	<b>P594,434,222</b>	<b>P -</b>

\*Excluding payables to government agencies and output VAT - net.

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.



### Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and other market prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. The Company is subject to foreign currency risk.

### Foreign Currency Risk

The Company's foreign currency denominated assets and liabilities as at December 31, 2017 and 2016 are as follows:

As at December 31, 2017					
Currency	Financial Assets	Financial Liabilities	Net Foreign Currency Liabilities	Exchange Rate	PHP Equivalent
USD	-	319,405	319,405	49.93	15,947,892
EUR	-	238,932	238,932	59.61	14,242,737
					30,190,629

As at December 31, 2016					
Currency	Financial Assets	Financial Liabilities	Net Foreign Currency Liabilities	Exchange Rate	PHP Equivalent
USD	-	194,923	194,923	49.81	9,709,699
EUR	-	257,743	257,743	51.84	13,361,500
AUD	-	242,155	242,155	35.78	8,663,265
					31,734,464

Net foreign exchange losses recognized in profit or loss amounted to P791,464 and P2,941,033 for the years ended December 31, 2017 and 2016, respectively (see Note 16).

### Sensitivity Analysis

The following table demonstrates sensitivity of cash flows due to changes in foreign exchange rates with all variables held constant.

December 31, 2017		
	Percentage Increase in Foreign Exchange Rates	Effect in Income after Income Tax
USD	0.23%	P26,221 decrease
EUR	15%	1,494,245 decrease

December 31, 2016		
	Percentage Increase in Foreign Exchange Rates	Effect in Income after Income Tax
USD	6%	P382,355 decrease
EUR	3%	233,068 decrease
AUD	5%	304,840 decrease

Changes in foreign exchange rates are based on the average of the banks' forecasted closing exchange rates during the first quarter of the following calendar year. A movement in the opposite direction would increase/decrease income before income tax by the same amount, on the basis that all other variables remains constant.



### Capital Management

The Company's objectives, when managing capital, are to increase the value of stockholders' investment and maintain high growth by applying free cash flows to selective investments that would further the Company's worth. The Company sets strategies with the objective of establishing a versatile and resourceful financial management and capital structure.

The Company defines capital as paid-in capital stock, additional paid-in capital and retained earnings. Other components of equity are excluded from capital for purposes of capital management. Profiles for capital ratios are set in the light of changes in the Company's external environment and the risks underlying the Company's business operations and industry.

The Company is not subject to externally-imposed capital requirements.

## 21. Fair Values of Financial Instruments

### *Cash, Trade and Other Receivables, Trade and Other Payables and Dividends Payable*

The carrying amounts of the Company's cash, trade and other receivables, trade and other payables (excluding provision and payables to government agencies) and dividends payable approximate their fair values due to the short-term maturities of these financial instruments.

### *Refundable Deposits*

The carrying amount of refundable deposit approximates its fair values as the impact of discounting is not significant.

### *Loan Payable and Due to Related Parties*

The estimated fair values of loan payable and due to related parties are based on the present value of expected future cash flows using the applicable market rates for similar types of loans at reporting date. The difference between the carrying amount and fair value of loan payable and due to related parties is considered immaterial by management.

The carrying amounts and estimated fair values of the Company's financial assets and liabilities as at December 31, 2017 and 2016 are presented below:

	2017		2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Loans and Receivables</b>				
Cash	P73,939,731	P73,939,731	P14,520,760	P14,520,760
Trade and other receivables - net	761,984,325	761,984,325	750,313,182	750,313,182
Refundable deposits	2,322,120	2,316,206	2,207,120	2,201,498
	<b>P838,246,176</b>	<b>P838,240,262</b>	<b>P767,041,062</b>	<b>P767,035,440</b>
	2017		2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Other Financial Liabilities</b>				
Trade and other payables	P269,989,734	P269,989,734	P183,331,414	P183,331,414
Dividends payable	100,000,000	100,000,000	100,000,000	100,000,000
Loan payable	50,000,000	50,704,966	70,000,000	70,815,308
Due to related parties	297,700,000	299,590,000	239,500,000	240,287,500
	<b>P717,689,734</b>	<b>P720,284,700</b>	<b>P592,831,414</b>	<b>P594,434,222</b>

## 22. Reconciliation between the Opening and Closing Balances for Liabilities Arising from Financing Activities

The reconciliation of movements of liabilities to cash flows arising from financing activities in 2017 are as follow:

	Loan Payable	Accrued Interest	Total
Balances at beginning of year	P70,000,000	P787,500	P70,787,500
<b>Cashflows from Financing Activities</b>			
Payments of loan payable	(20,000,000)	-	(20,000,000)
Interest expense	-	3,719,770	3,719,770
Interest paid	-	(3,719,770)	(3,719,770)
	P50,000,000	P787,500	P50,787,500

## 23. Subsequent Events

### *Effects of Corona Virus Disease 2019 (COVID-19)*

On March 8, 2020, under Proclamation 922, the President of the Philippines (the "President") has declared a state of public health emergency due to the spread of the Corona Virus Disease 2019 (COVID-19) in the country. Subsequently on March 16, 2020, under Proclamation 929, the previously declared state of public health emergency was upgraded into a state of calamity. To manage the spread of the COVID-19, the entire Luzon has been placed under an Enhanced Community Quarantine (ECQ), effective from March 17, 2020 until April 12, 2020, which was further extended to May 15, 2020. During the ECQ, a strict home quarantine is implemented in all households, all public transportation are suspended, provision for food and essential health services is regulated and the presence of uniformed military personnel to enforce quarantine procedures is heightened. Liquor bans have also been implemented in several areas under ECQ wherein drinking alcoholic beverages in public areas is prohibited and retail stores are only allowed to sell the same during a limited time in the day. On May 16, 2020 onwards, the Philippine government placed different areas of the country either Modified Enhanced Community Quarantine (MECQ) or General Community Quarantine (GCQ), depending on the assessed risk. Several local government units lifted the liquor bans under MECQ and GCQ, subject to certain restrictions. Since the Company's primary operation is the importation and distribution of wines and spirits, the Company was only able to operate limitedly amidst the quarantine period. Moreover, the Company continues to have a skeletal workforce to oversee and make sure facilities, vital equipment, sanitation and security are adequately and properly maintained. The Company has assessed that the ECQ being implemented by the government will have a potential unfavorable impact on the Company's revenues including the collection of its receivables, among others. However, the quantitative impact of this event on the Company's financial performance for the succeeding quarters is not yet determinable at this date. Nonetheless, the expected decline in operations does not pose a material uncertainty on the Company's ability to continue as a going concern.

### *Purchase of Pernod Shares*

In February 2019, the Company engaged in a Shareholders' Agreement and a Share Purchase Agreement with Pernod Ricard Asia S.A.S and Allied Netherlands B.V. for the purchase of 30% shares of Pernod Ricards Philippines, Inc. (Pernod).

**24. Supplementary Information Required by the Bureau of Internal Revenue (BIR) under Revenue Regulations No. 15-2010**

In addition to the disclosures mandated under PFRS, and such other standards and/or conventions as may be adopted, companies are required by the BIR to provide in the notes to financial statements, certain supplementary information for the taxable year. The amounts relating to such information may not necessarily be the same with those amounts disclosed in the financial statements which were prepared in accordance with PFRS. The following are the tax information required for the taxable year ended December 31, 2017:

**a. VAT**

1. Output VAT	P227,409,995
<b>Account title used:</b>	
Basis of the Output VAT:	
Vatable sales	P1,895,083,293
Zero rated sales	130,308,373
Total sales	P2,025,391,666
2. Input VAT	
Beginning of the year	P -
Current year's domestic purchases:	
a. Goods for resale/manufacture or further processing	205,950,759
b. Goods other than for resale or manufacture	-
c. Services lodged under other accounts	19,713,061
VAT payments and other adjustments	9,502,723
VAT credits used	(227,409,995)
Balance at the end of the year	P7,756,548

**b. Customs Duties and Tariff Fees**

Landed cost of imports	P819,361,802
Customs duties and tariff fees paid or accrued	59,146,382
	P878,508,184

**c. Excise Taxes**

Imported excisable items wines and liquor	P146,554,698
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**d. Documentary Stamp Tax**

On borrowings	P440,345
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**e. Withholding Taxes**

Tax on compensation and benefits	P5,630,026
Expanded withholding taxes	10,715,987
	P16,346,013

f. All Other Taxes (Local and National)

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*Other taxes paid during the year recognized under  
"Taxes and licenses" Account under Operating  
Expenses*

License and permit fees

**P4,679,891**

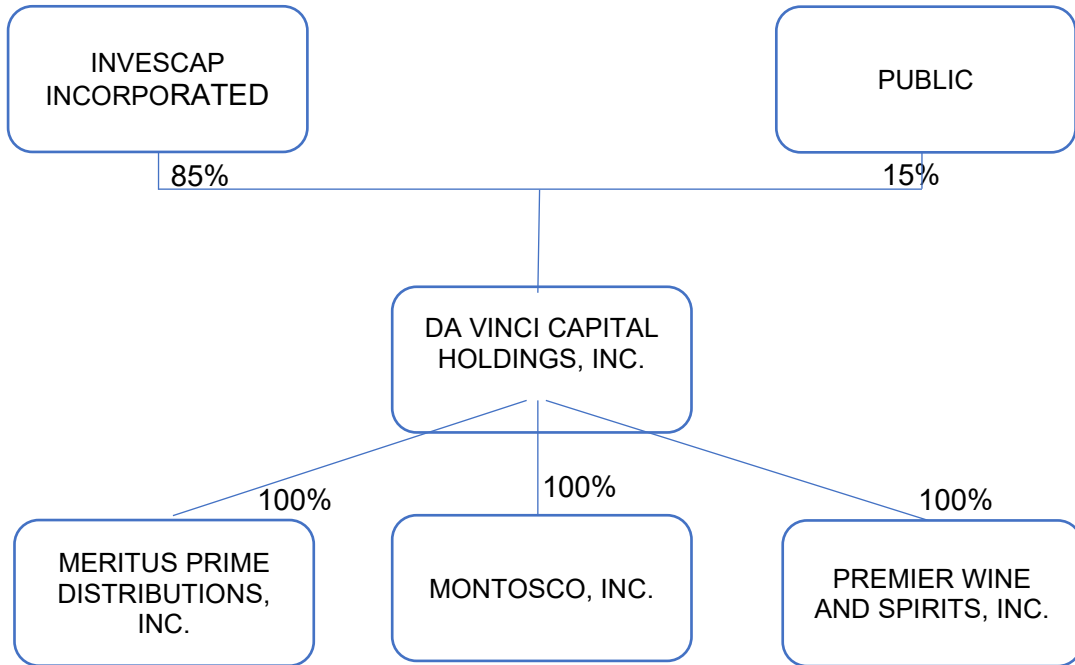
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g. Tax Cases and Assessments

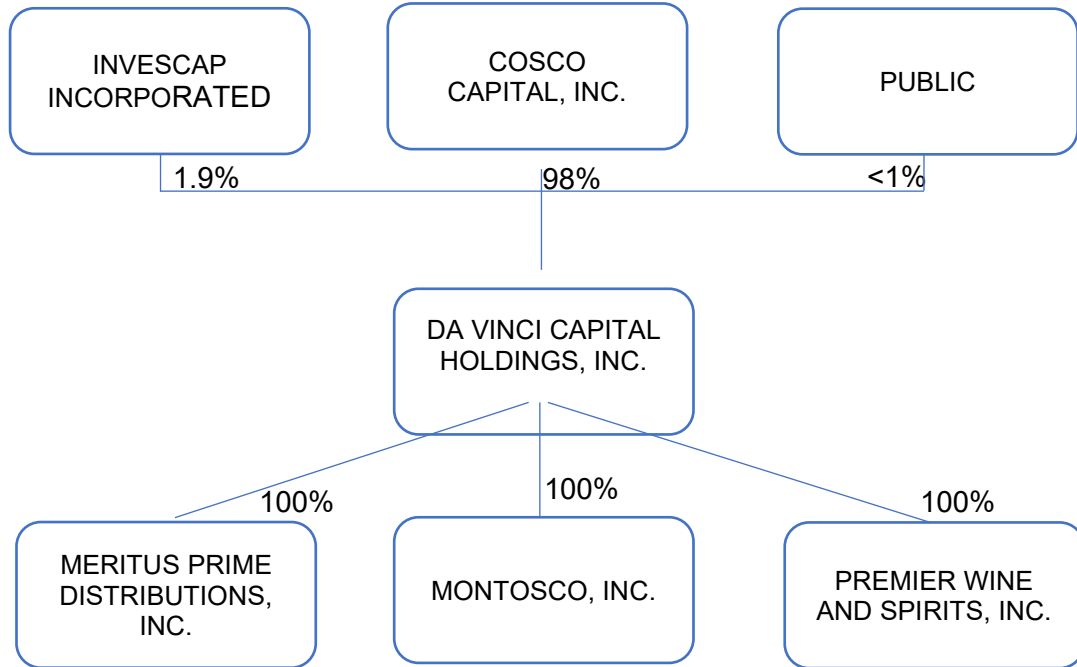
As at December 31, 2017, the Company has no pending tax cases nor has received tax assessment notices from the BIR.

Information on tariff fees paid or accrued, are not applicable since the Company did not enter into transactions which will result to payment of accrual of such taxes.

OWNERSHIP STRUCTURE BEFORE THE  
SHARE SWAP TRANSACTION



OWNERSHIP STRUCTURE AFTER THE  
SHARE SWAP TRANSACTION





# Project Integra

Valuation and issuance of fairness opinion on the shares of companies operating in the liquor distribution, and a listed shell company

8 April 2021

Strictly private and confidential



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Cosco Capital, Inc.  
2/F Tabacalera Building, 900 Romualdez St.,  
Paco, Manila, 1007

**For the attention of Mr. Leonardo B. Dayao, President**

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8 April 2021

Dear Mr. Dayao,

**Valuation report prepared by Isla Lipana & Co. (“we”, “PwC”, or the “Firm”), a member firm of PwC, in connection with the valuation and issuance of fairness opinion on the shares of companies operating in the liquor distribution industries (collectively, the “Subject Entities” ), and a listed shell company.**

This valuation report (the “Report”) has been prepared by Isla Lipana & Co., a member firm of PwC, solely for Cosco Capital, Inc. (“Cosco”, “You”, or the “Company”) with respect to the valuation of the shares of the Subject Entities and Da Vinci Capital Holdings, Inc. (“Da Vinci” or the “Listed Shell Company”) as at 30 September 2020 and issuance of fairness opinion on the share swap ratio, in connection with Cosco’s plan to enter into a share swap transaction with the Listed Shell Company.

The Subject Entities / Liquor Distribution Companies are as follows:

- Montosco, Inc. (“Montosco”)
- Meritus Prime Distributions, Inc. (“Meritus”)
- Premier Wine & Spirits, Inc. (“PWSI”)



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**For the attention of Mr. Leonardo B. Dayao, President**

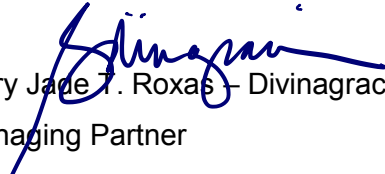
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This Report has been prepared in accordance with our supplemental letter dated 22 October 2020 and is solely for the purpose stated herein and should not be relied upon for any other purpose.

This Report is strictly confidential and, save to the extent required by applicable law and/or regulation, must not be released to any third-party without our expressed written consent.

If you require any clarification or further information, please contact me at +63 917 523 5913 or Darwin Saribay at +63 917 510 8069.

Yours faithfully,

  
Mary Jade T. Roxas – Divinagracia, CFA®, CVA  
Managing Partner  
Deals and Corporate Finance

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# Scope and process (1 of 4)

## Scope of work

To the fullest extent permitted by law, we accept no duty of care to any third-party in connection with the provisions of this Report and/or any related information or explanation (together, the “Information”). Accordingly, regardless of the form of action, whether in contract, tort or otherwise, and to the extent permitted by applicable law, the Firm accepts no liability of any kind to any third-party and disclaims all responsibility for the consequences of any third-party acting or refraining to act in reliance on the Information.

Accordingly, you understand and accept that the Deals and Corporate Finance group of Isla Lipana and Co., a member Firm of PwC, has not been employed in the capacity of examining certified public accountants and therefore has not expressed any form of comfort or assurance on the achievability of forecasts or the reasonableness of underlying assumptions beyond what is generally accepted under the standards common to the business value measurement profession.

We performed our procedures with the assumption that all information obtained in the valuation of the shares of the Subject Entities and the Listed Shell Company, including representations and warranties by Management are true, accurate, and provided in good faith.

Moreover, the scope of our work does not include a compliance review of financial information to tax laws and Philippine and International financial reporting standards. Accordingly, this Report may not have identified all matters that might be of concern to you.

Forecasts relate to future events and are based on Management assumptions which may not remain valid for the whole of the relevant period. We express no assurance of any kind on such prospective or forecast information since there will usually be differences between estimated and actual results, because events and circumstances frequently do not occur as expected, and those differences in results may be material. Consequently, this Information cannot be relied upon to the same extent as that derived from audited accounts for completed accounting periods. Accordingly, we express no opinion as to how closely the actual results achieved will correspond to the forecasts, and we take no responsibility of any kind for the achievement of the forecast provided by the Company and/or the Subject Entities.

# Scope and process (2 of 4)

## Sources of information

The information used by the Firm in preparing this Report have been obtained from a variety of sources as indicated within it. These include public disclosures and information obtained, discussed, and agreed with you. **Specifically, the information used by the Firm in preparing this Report is based substantially on information provided by the Management.** These inputs include, but are not limited to:

- Unaudited standalone trial balances of the Subject Entities and the Listed Shell Company as at 30 September 2020
- Audited financial statements of the Subject Entities for 2017, 2018 and 2019 reporting periods
- Forecasted financial information of the Subject Entities
- Historical and forecasted operating statistics of the Subject Entities, particularly average price per case per brand and number of cases sold per year per brand
- Expected policies on working capital management, including target DSO, DPO and DIO for the Subject Entities
- The outstanding number of shares of the Subject Entities and the Listed Shell Company

Moreover, except where otherwise stated in the Report, we have not subjected the financial information in the Report to checking or verification procedures. Accordingly, we assume no responsibility and make no representations with respect to the accuracy or completeness of any information provided by and on behalf of the Subject Entities or the Listed Shell Company. Our work cannot be relied upon to discover errors, irregularities, or illegal acts.



# Scope and process (3 of 4)

## Limitations

Our Report is not intended to be the basis for investment decisions and any action you take must ultimately remain a decision for you, taking into account matters outside the scope of our work of which you are aware of.

By its very nature, valuation work cannot be regarded as an exact science and the conclusions arrived at in many cases will be subjective and dependent on the exercise of individual judgment. There is, therefore, no indisputable single value and we normally express our valuation as falling within expected ranges, which in our opinion is reasonable and defensible, and others might wish to argue for different values.

Our conclusions are based on the information available as at the date of the Report. **To the extent appropriate and given the information made available to us, we have incorporated the potential impact of COVID-19 in the valuation. We have considered current company and market conditions as a result of the pandemic in analyzing the reasonableness of assumptions used. However, given the uncertainties brought about by the pandemic, we do not purport to have fully accounted for its impact in the valuation.**

We have not considered events subsequent to the date of the Report. Based on discussions with Management, we are not aware of any events subsequent to the Valuation Date and up to the date hereof that may materially impact the forecasted financial performance and other key inputs used in the valuation, or any circumstances that may materially impact the conclusions drawn in the valuation report. As to the impact of the Corporate Recovery and Tax Incentives for Enterprises Act (CREATE) signed into law subsequent to the Valuation date, we have simulated its impact on the resulting fair values.

Economic conditions, market factors and changes in the performance of the business of the Subject Entities may result in our conclusions becoming quickly outdated and may require updating from time to time or before any major decisions are taken based on the Report. In any event, if you intend to make any decision based on the Report more than three months from the date of the Report, you must request our written confirmation as to the currency of our findings and conclusions.

The Report shall not be construed to cover and support any decisions and/or actions of the Subject Entities, their Management, and/or their shareholders that are outside the scope of the Transaction described herein.

# Scope and process (4 of 4)

## Independence

The Firm has been compliant with the independence requirements of Securities Regulation Code (SRC) Rule 19 and the Philippine Stock Exchange (PSE) in relation to the Transaction. Specifically, SRC Rule 19 section 19.2.6.1 defines independence as the absence of any business interest or family relationship with any party to the Transaction or of any of its directors, officers, or major stockholders, that could, or could reasonably be perceived to, materially interfere with the exercise of the professional judgment of the Firm, its representative or any member of the engagement team, in carrying out their responsibilities in assessing the fairness of the issuer's securities. Moreover, per Memorandum No. 2011-0104, the PSE does not consider a firm to be independent if:

- It is a related party to the applicant companies
- Its holding or subsidiary company provides financial advisory in relation to the applicant companies' listing application, or external audit services to the applicant companies, and
- Other circumstances or arrangements, direct or indirect, between the firm and the applicant companies that, in the determination of the PSE, may influence, or tend to influence, the objectivity and reliability of the fairness opinion and valuation report(s).

Isla Lipana & Co. has no present contemplated future interest in the Subject Entities or any other interest that might tend to prevent making a fair and unbiased valuation.

# At a glance

# At a glance (1 of 3)

Highlights – Using the discounted cash flows approach, we estimated the Liquor Distribution Companies' total value to be between PHP20,740.7m to PHP24,245.8m. The largest contributor to this value is Montosco, which accounts for around 84.3% of the total equity value of the Liquor Distribution Companies.

## Business overview

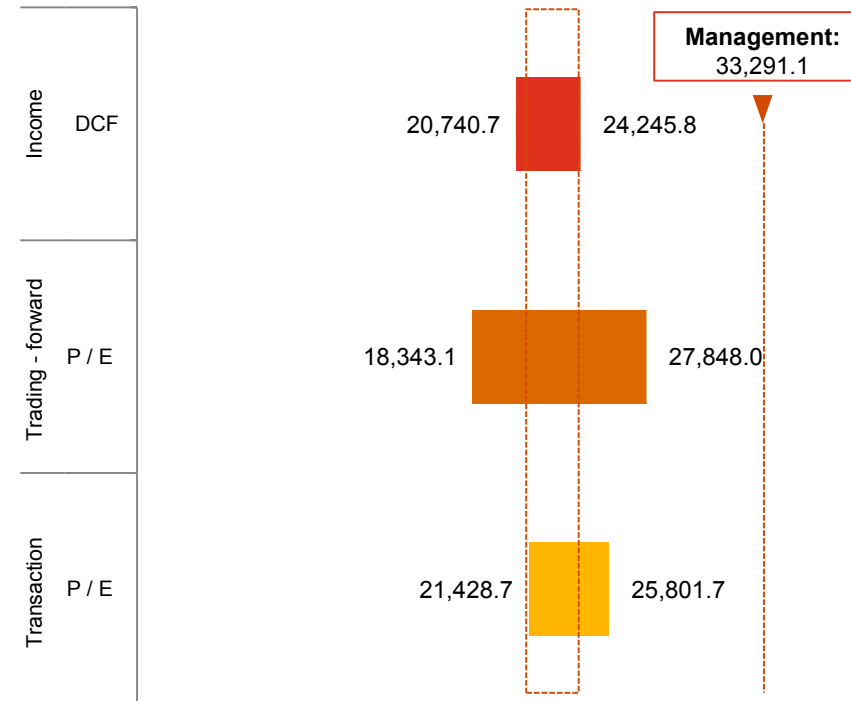
1. **Montosco** - Its recovery and eventual growth will mainly be driven by sales from its brandy and whiskey segments, particularly Johnnie Walker, and Alfonso from Bodegas Williams & Humbert, S.A.U.
2. **Meritus** - Meritus distributes brands like Alhambra, Jim Beam, and Glenfiddich where it expects majority of its value to come from.
3. **PWSI** - PWSI's growth will be driven by its sales from wines and spirits through brands such as Penfold Wines, Jose Cuervo, and Carlos.

## Key drivers of differences between the Management and PwC cases (1 of 2):

In determining the range of values for the low and high cases, we have analyzed available information based on the historical performance and key operating statistics of the Liquor Distribution Companies, outlook for the alcoholic beverages industry, and Management recovery and long-term plans.

- a. **Volume growth** - Management's implied volume growth was derived from forecasted y-o-y revenue growth of 20.0% - 30.0%. For the low and high cases, volume growth was assessed based on the outlook of the industry and Management's plans and expectations on the recovery and sustainable growth of each liquor category.
- b. **Cost of sales** - Assumptions regarding cost of sales under the low and high cases consider historical and/or forecasted levels to account for historical performances and planned measures to improve margins. that affect their costs.

## Liquor Distribution Companies' range of equity values PHP in millions



Source: PwC Analysis, Management Information

# At a glance (2 of 3)

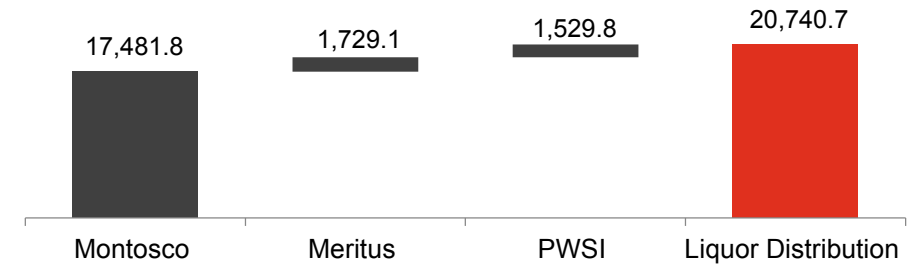
Highlights – Using the discounted cash flows approach, we estimated the Liquor Distribution Companies' total value to be between PHP20,740.7m to PHP24,245.8m. The largest contributor to this value is Montosco, which accounts for around 84.3% of the total equity value of the Liquor Distribution Companies.

## Key drivers of differences between the Management and PwC cases (2 of 2):

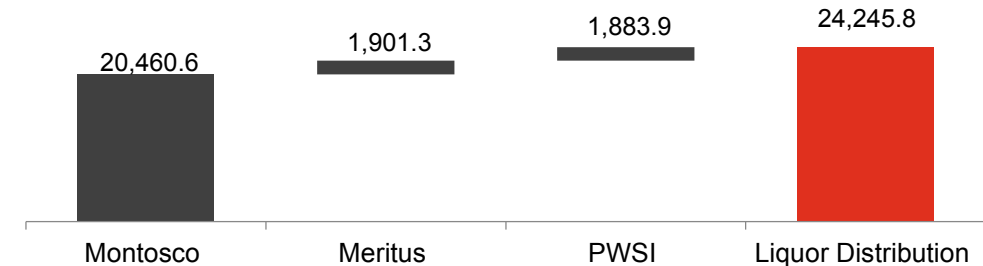
- c. **General and administrative expenses** - We have assessed operating expenses based on their nature and the expected level of spending to sufficiently support the Liquor Distribution Companies' path to recovery and sustainable revenue growth. For the low and high cases, we generally deferred to Management from 2020 to 2022 to consider latest performance, and immediate strategies and recovery plans. Subsequently, we used annual price escalation based on EIU's Philippine inflation forecast, except for salaries and wages that were grown by nominal GDP from 2021 onwards.
- d. **Net working capital** - generally, we have considered the historical and contractual terms with suppliers and customers including actual cash collection and payment patterns of the Liquor Distribution Companies in order to estimate reasonable working capital levels. We have also considered working capital improvements that the Subject Entities are expecting based on efficiency measures that the Management has started to implement.

*Please refer to pages 22 to 25 for a more detailed discussion on these assumptions*

**Range of equity values (Low case)**  
PHP in millions



**Range of equity values (High case)**  
PHP in millions



# At a glance (3 of 3)

Highlights – Using the shell premium analysis, we estimated the value of Da Vinci to be between PHP320.6m to PHP603.4m or PHP0.29 to PHP0.54 price per share.

## Overview

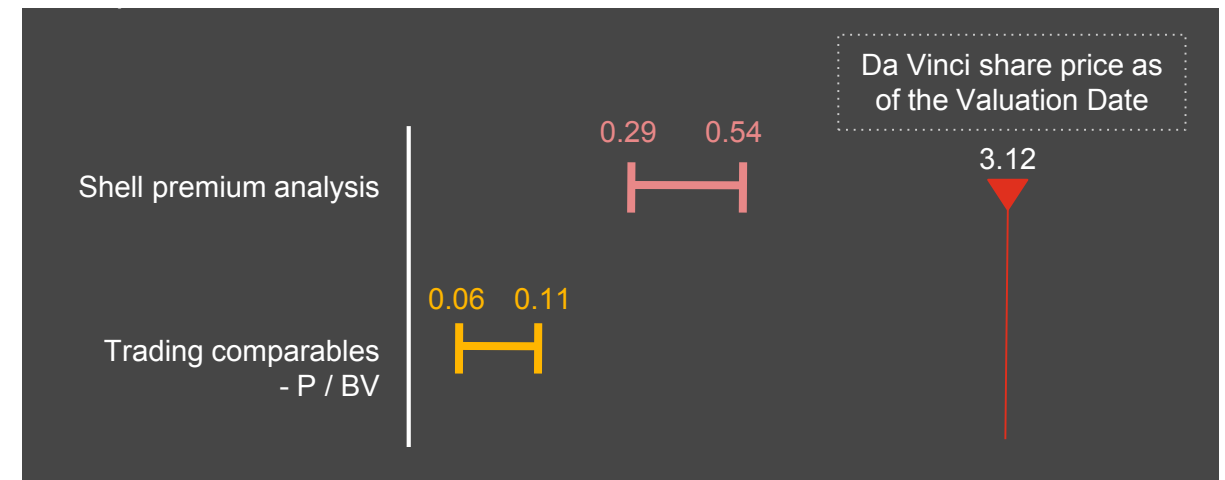
The implied market price of Da Vinci under the shell premium analysis is estimated to be between PHP0.29 to PHP0.54 per share. Under the trading comparables approach using P / BV multiple, the implied market price is estimated to be between PHP0.06 to PHP0.11 per share. As of 30 Sep 2020, Da Vinci was trading at PHP3.12 per share. The equity values are much lower than the traded price given the minimal net assets of the Listed Shell Company, and absence of operations and recurring sources of cash flows. As it is a non-operating company, we assessed that the share price of PHP3.12 as of 30 Sep 2020 may not be supportable by its fundamentals and circumstances.

**PHP320.6m - PHP603.4m**

Shell premium analysis

**PHP63.9m - PHP127.2m**

Trading comparables - P / BV multiple



### Notes:

- (1) The 30, 60, and 90-day Volume Weighted Average Share Price ("VWAP") of Da Vinci are PHP3.30, PHP3.51, and PHP3.54, respectively.
- (2) As of 30 Sep 2020, Da Vinci has issued and outstanding shares of around 1.12bn.
- (3) The P / BV multiple was used considering that Da Vinci does not have operations and earnings. The selected comparables used likewise do not have operations and earnings.

Source: PwC Analysis, Management Information, S&P CapIQ



# Valuation methodologies, scope and limitations

# Valuation methodology (1 of 2)

## Income approach

The income-based approaches are premised on the principle that the value of a company/business is dependent upon the future economic benefits it can generate.

### Discounted Cash Flows Approach (“DCF”)

This method indicates the value of a business enterprise based on the present value of the cash flows that the business can be expected to generate in the future. Such cash flows are discounted at the weighted average cost of capital (“WACC”) that reflects the time value of money and the risks associated with the cash flows and/or the business.

We deem it appropriate to use the discounted cash flow approach as a method to estimate the value of the Liquor Distribution Companies for the following reasons:

- The Liquor Distribution Companies are going concern businesses with cash flows that can be reasonably estimated;
- The DCF valuation methodology has the advantage of allowing explicit judgments to be made regarding matters specific to the business (e.g. price and volume growth, cost ratios, operating expenses, capital expenditures, discount rate, etc.); and,
- The DCF valuation methodology allows explicit recognition to be given to the time value of money.

## Market approach

We used the market approach (1) in estimating the value of the Listed Shell Company and to (2) cross-check the Subject Entities’ value estimated using the DCF method. The market approach entails three main steps:

1. selection of suitable comparable companies/transactions,
2. estimation of appropriate valuation multiples for the selected comparable companies/transactions, and
3. application of valuation multiples to the financials, adjusted for unusual or non-recurring items.

### Comparable company analysis or “trading comps”

Trading comps was applied to know and understand how businesses like the Liquor Distribution Companies, and the Listed Shell Company are currently valued in the market relative to their peers. This is based on the idea that similar companies provide an appropriate and significant benchmark for valuing a company since they share key business and financial characteristics, performance drivers, and risks.

In performing relative valuation using this approach, we selected a set of comparable publicly-listed companies based on certain criteria (i.e. products, services, growth, market size, returns, etc.), as a result of their varying nature of business.

# Valuation methodology (2 of 2)

## Precedent transaction analysis or “transaction comps”

Similar to trading comps, transaction comps approach employs a multiples-based approach to estimate an implied valuation range for the Subject Entities.

The selection process included determining a universe of recent comparable transactions, considering targets with similar business models and financial characteristics as the Subject Entities.

The forward trading and implied transaction multiples were multiplied to the Subject Entities' forecasted net income to come up with an estimated valuation range.

## Precedent shell transactions analysis or “shell company valuation”

We used the precedent shell transactions analysis as the primary approach in valuing the Listed Shell Company. The shell company valuation approach estimates a shell premium over the book value of an entity's net assets. The excess represents the premium over the net book value that a buyer is willing to pay to acquire a vehicle that will take a company public more efficiently.

# Scope risks and limitations

The forecasts use certain key variables to arrive at an estimated range of fair values. Changes in these assumptions and business conditions may materially and adversely impact the valuation.

## General assumptions

Several general assumptions are made to support the estimates of the values of the Subject Entities. These assumptions are:

1. There will be no major change in the existing political, legal, fiscal, and economic conditions (i.e. interest, inflation rate, easing of foreign ownership limits of property) in the country in which the Subject Entities operate in;
2. There will be no major change in the tax laws of the Philippines, including applicable tax rates, and that all applicable laws and regulations will be complied with;
3. We have not performed a review of the historical financials of the Subject Entities and have assumed that the financial information provided to us reflect an accurate representation of the financial performance of the businesses;
4. All forecasts and financial schedules have been reasonably prepared, reflecting estimates and historical financial information that have been arrived at after due and careful consideration by Management;

6. The Subject Entities will retain and have competent Management, key personnel, technical staff and distribution network to support its operations; and

7. We have used mid-year discounting throughout the forecast years as the cash flows are distributed throughout the year instead of at the end of each year.

## Market approach

Comparable company and precedent transaction analyses reflect current valuation based on prevailing market conditions/sentiment and past transactions, respectively. However, valuation range derived from this type of valuation methodology may sometimes be skewed either too high or too low since the multiples used may be subject to periods of irrational investor sentiment.

Moreover, certain limitations need to be considered in selecting comparable companies/transactions. A set of comparable companies/transactions, where differences in risk, growth, cash flow potential, and accounting policies and tax treatments are not taken into consideration, may lead to misleading conclusions. It is also understood that no two companies/transactions are exactly alike. Therefore, assigning a valuation based on the trading and transaction characteristics of similar companies/transactions may fail to accurately capture the intrinsic value of a company.

# Industry overview

# Wines and spirits industry in the Philippines (1 of 2)

## The industry in 2020

According to Euromonitor, the COVID-19 pandemic (the “pandemic” or “COVID-19”) had a significant impact on the alcoholic beverages industry, where a decline in both on-premise and off-premise consumption was observed due to community quarantine protocols which imposed temporary restrictions on alcohol sales, closures of bars and restaurants, and prohibitions on public gatherings.

Restrictions have already been eased across the country with few cities still implementing the liquor ban. However, consumption level is still not expected to return to the previous level in the short-term due to the continuous concern on the spread of COVID-19.

## Outlook

The pandemic is expected to inhibit the robust growth experienced by the on-premise category with the closure of drinking and tourism establishments, and with more consumers choosing to drink at home due to concerns over the spread of COVID-19.

For most alcoholic beverage categories, Euromonitor expects recovery to pre-COVID-19 levels by 2022 once restrictions are fully lifted and the pandemic has been contained.



““ Locally-produced brandy **Emperador** lost shares to imported Spanish brandy **Alfonso**, and to locally produced gin and rum. ””

## Industry trends

The International Wine and Spirits Research (“IWSR”) and Euromonitor have highlighted recent industry trends for each major liquor category.

### Brandy

Imported Spanish brandies have penetrated both rural and urban areas and is expected to drive the category in terms of volume, with consumers trading up locally produced brandy for imported Spanish brandy. Alfonso, the leading imported Spanish brandy, continues to grow rapidly, increasing its market share from 6.1% in 2018 to 9.1% in 2019. Emperador maintains its lead in 2019 with a market share of 80.8%.

### Whisky

The continued premiumisation within the whisky segment is expected to benefit the entire category, with many younger drinkers, especially millennials, associating categories like Scotch to success and sophistication. Brands like Johnnie Walker continue to dominate the Premium Scotch Whisky segment with extremely competitive pricing policies. Other brands like Glenfiddich, Jack Daniel’s, and Jim Beam also posted moderate growth.

### Tequila

Growth in the standard segment was observed, primarily driven by Jose Cuervo which account for 76.1% of agave-based spirits consumption in the Philippines in 2019. More premium segments also saw more traction, driven by renewed investments from Patrón and growing interest in 100.0% agave tequilas.

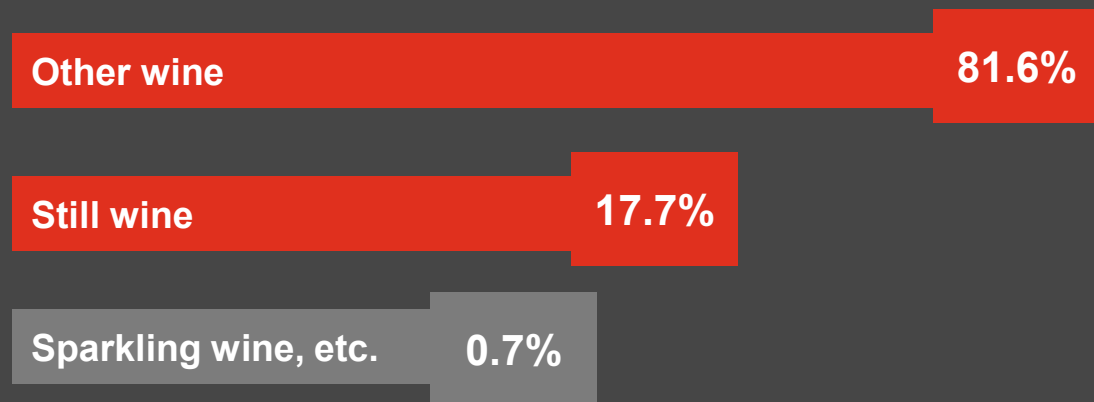


# Wines and spirits industry in the Philippines (2 of 2)

## Wine

According to Euromonitor and IWSR, with the growing middle and upper classes and increasing disposable income, a growing interest for wines will drive its growth, especially in the standard-and-above categories. Wine still has plenty of room for development in the Philippines, with interest and awareness only starting to take off. Though the pandemic inhibited its growth, further growth can be expected once restrictions are lifted and the pandemic has been contained. Key to this growth will be the reopening of bars, restaurants, and tourism establishments which serves as avenues for brand building.

## Total Wine consumption in 2019



Sources: International Wine and Spirits Research,  
Euromonitor  
Strictly private and confidential  
PwC | Project Integra

## **Other structural trends**

### Preference for premium brands

According to Euromonitor and IWSR, with the growing legal-drinking-age population and the increasing spending power of consumers, imported categories have seen robust growth due to shifting preference towards new and more premium products.

Premium products are also expected to sustain demand as their consumers have been less vulnerable to the economic effects of the pandemic, have higher financial security and as such is expected to continue the consumption of these products.

### Internationalisation

According to IWSR, more consumers are gradually trading up from locally produced wines and spirits to imported brands, especially for the brandy segment. More brands are becoming available in the market and may encourage consumers to experiment more.

### Growth in E-commerce

According to IWSR, with the prevalence of smart mobile devices, digital payment methods, and increasing disposable income, online sales of alcoholic beverages have seen continued growth in the past years. With the risks related to the COVID-19 pandemic, purchasing alcoholic beverages online may further drive the growth of this channel. Popular E-commerce platforms include Boozy and Manila-Wine who offer a wide range of products and services to tend to evolving consumer needs.

# Valuation analysis

# General assumptions (1 of 3)

## Introduction

- As agreed with Management, we used 30 September 2020 as the Valuation Date.
- Management forecasted financial performances for a period of 5 years, which we used to estimate cash flows.
- We have calculated a weighted average cost of capital (“WACC”) to discount the free cash flows to the firm (“FCFF”) in order to calculate the estimated values of the Liquor Distribution Companies.

## Discounted Cash Flows approach (“DCF”)

The DCF approach involves the following key steps:

- determining an appropriate discount rate (WACC or  $K_e$ ),
- estimating future cash flows for a certain discrete projection period,
- estimating the terminal value (i.e. the value of the cash flows subsequent to the discrete projection period), as applicable, and
- discounting the cash flows and terminal value at the relevant discount rate to determine the standalone equity value.

## Potential impact of COVID-19

We have incorporated the potential impact of COVID-19 based on industry outlook, discussions with Management, and the information made available to us.

- Management’s forecast for the Liquor Distribution Companies generally assumes full recovery of 2019 sales volume by 2021 to 2022. For high and low cases, we considered the Philippine alcoholic beverage industry’s expected recovery only by 2022 and the industry outlook throughout the forecast period.
- Incremental costs and potential cost savings in operating expenses arising from recovery plans and Management strategies were considered in 2021 and 2022.
- A 20.0% discount was applied to the multiples used for the precedent transactions analysis of the Liquor Distribution Companies, due to lower liquidity in the market as at the Valuation Date brought about by the pandemic.

We have considered current company and market conditions as a result of the pandemic in analyzing the reasonableness of the key assumptions used. However, given the uncertainties brought about by the pandemic, we do not purport to have fully accounted for its impact in the valuation.

# General assumptions (2 of 3)

## Discount rate

The discount rate is based on our independent estimate of the WACC and  $K_e$  using the Capital Asset Pricing Model (CAPM), derived from identified set of publicly-listed comparable companies.

We selected comparable companies having the closest business model to the Subject Entities, which are engaged in the liquor or food and beverage distribution business for the Liquor Distribution Companies. Using these comparable companies, we have calculated the discount rate summarized as follows. *Description of the comparable companies are provided in the Appendix 2.*

	A	B	C	D		E	F		
Entity	Rfr	MRP	Beta	SP	$K_e$	Kd	Tax rate	Kd, net of tax	WACC
Liquor Distribution	4.9%	6.9%	0.71	0.5%	10.0%	6.4%	30.0%	4.5%	10.0%

Certain limitations need to be considered in selecting comparable companies. A set of comparable companies, where differences in risk, growth, or cash flow potential are not taken into consideration, may lead to misleading conclusions. It is also understood that no two companies are exactly alike.

**A Risk-free rate:** 12-month average yield on 10-year treasury bonds for the period ended 29 February 2020 to consider the pre-COVID-19 normalized risk-free rate.

**B Market risk premium:** Damodaran's normalized equity risk premium rating for the Philippines.

**C Adjusted beta:** Average unlevered beta of comparable companies, re-levered using the industry average debt to equity ratio.

**D Size adjustment:** Company specific risk-measure adjustment which takes into account size differential between comparable companies and the Subject Entities', based on CRSP's methodology on size premium.

**E Cost of debt:** Normalized risk-free rate plus estimated credit spread based on Cosco's 10-year loan.

**F Tax rate:** Philippine corporate tax rate of 30.0% for liquor distribution.

## Terminal Growth Rate

The terminal growth rate is a stable and sustainable rate at which an entity will grow from the terminal year to perpetuity.

As we expect that the Liquor Distribution Companies will operate until perpetuity (going concern), we assumed a normalized stable growth rate of 3.0% from the end of the forecast horizon until perpetuity, based on Economist Intelligence Unit's ("EIU") forecast.

# General assumptions (3 of 3)

## Taxes

The Liquor Distribution Companies are subject to the regular corporate income tax (“RCIT”) and minimum corporate income tax (“MCIT”).

RCIT is equal to 30.0% of taxable income, while MCIT is computed as 2.0% of gross income.

To arrive at the taxable income, the Philippine tax code allows the use of either (a) optional standard deduction (“OSD”) not exceeding 40.0% of gross income or (b) itemized deductions. For the low and high cases, we considered which of the two will be more beneficial for the Liquor Distribution Companies, and used that in estimating income taxes per year.

The Corporate Recovery and Tax Incentives for Enterprises (“CREATE”) Act proposes to lower the corporate income tax rate and rationalize corporate tax incentives, which may result in a potential upside on the valuation. However, this was not considered yet in this Report, as it has not been enacted as at the Valuation Date. The CREATE Act was enacted on 26 March 2021.

If the reduced RCIT of 25% and MCIT of 1.0% under the CREATE Act will be considered in the valuation assumptions, the values of the Liquor Distribution Companies will increase to PHP22,025.7 (6.2% higher) and PHP25,764.6 (6.3% higher) for the low and high cases, respectively.

Given the changes in tax rates, the Management may also need to assess the recoverability of any recognized deferred tax assets subsequent to the Valuation Date.

# Income approach: Liquor Distribution Companies (1 of 4)

## Revenues

Management forecasted a 20.0% to 30.0% year-on-year (“y-o-y”) revenue growth for each liquor category. To analyze the drivers of revenue, price and volume were separately assessed.

## Price

The price movements of the Liquor Distribution Companies are subject to the changes in the duties, taxes, exchange rate, and other costs associated with the importation of products and sale to the local market. Price list provided by Management was used in 2020. Afterwards, annual price escalation based on EIU’s Philippine inflation forecast is used to account for the potential changes in price.

## Volume

The implied volume growth is derived from Management’s forecasted revenue growth of 20.0% - 30.0%. Volume growth is driven by the (1) continuous efforts to strengthen their market presence, (2) increased efficiency in logistics and distribution across off-trade channels from outsourcing to third party logistics providers, (3) marketing and promotional support provided by certain brand owners to supplement activities initiated by the Liquor Distribution Companies, and (4) Management’s revised expectations considering the estimated impact of the COVID-19 pandemic.

In general, we gave weight to (1) Management’s expected volume growth and (2) industry growth from 2021 to 2023, applying 50-50 and 70-30 probability weights for the low and high cases, respectively, considering that historically, the Liquor Distribution Companies were able to achieve significantly higher growth than the industry. Beginning 2024, sales volumes are assumed to grow together with the industry once the Liquor Distribution Companies achieve sustainable levels of operations.

## Montosco

Sales from Alfonso brandy will drive Montosco’s value, accounting for around 84.0% of forecasted sales. IWSR expects the shift from local brandy to Spanish brandy will continue in the foreseeable future due to the increasing spending power of consumers. Alfonso is one of the leading imported Spanish brandies in the market.

We assumed that Spanish brandy sales will recover by 2021 given the (1) expected shift from local brandy to Spanish brandy and (2) Alfonso’s position as a leading imported Spanish brandy in the country.

For 2022 to 2023, we gave weight to Management’s expected volume growth and industry growth, applying 50-50 and 70-30 probability weights for the low and high cases, respectively.

## Meritus

Meritus expects brands like Alhambra brandy, Jim Beam, and WGS scotch whisky to drive its value throughout the forecast period. With its premium portfolio, local industry expectations remain positive for these brands.

## PWSI

For PWSI, Management intends to streamline their products to focus on more profitable brands. Management plans on unloading unprofitable brands and focusing their marketing efforts on Carlos, Tequila Rose, Jagermeister, and Campari, among others.



# Income approach: Liquor Distribution Companies (2 of 4)

## Cost of sales (“COS”)

These pertain to purchases and other direct costs associated with the importation of products (e.g. freight-in, duties and taxes, among others).

### Montosco

For Montosco, historical COS ratios ranged from 75.2% to 76.0% from 2017 to 2019. We used the historical average (75.7%) COS ratio for the low and high cases.

### Meritus

For Meritus, historical COS ratios ranged from 74.0% to 81.4% from 2017 to 2019. We used the historical average (77.9%) COS ratio for the low and high cases.

### PWSI

PWSI’s historical COS ratio from 2016 to 2019 ranged from 80.8% to 84.2%. Management assumes a lower COS ratio of 78.1% to 79.8% as a result of unloading unprofitable brands. For the low and high cases, we gave weight to Management’s estimate and the 2019 actual COS ratio, applying 50-50 and 70-30 probability weights, respectively.

## COS ratio

### % of net sales

	<b>Montosco</b>	<b>Meritus</b>	<b>PWSI</b>
Low	75.7%	77.9%	81.9%
High	75.7%	77.9%	81.1%
Management	73.5% - 75.0%	76.4% - 77.0%	77.5% - 79.8%

## Operating expenses

These are classified between (1) selling expenses and (2) general and administrative expenses. Selling expenses include advertising and promotions, and distribution costs, while general and administrative expenses include salaries and wages, outside services, rentals, and taxes and licenses, among others.

### Selling expenses

We assumed that Management will maintain historical advertising and promotion % throughout the forecast period. For distribution costs, we generally deferred to Management assumptions given expected increase in contracted rates with logistics partners, among others.

The table that follows summarizes the selling expense ratios used for the Liquor Distribution Companies.

## Selling expense ratio

### % of net sales

	<b>Montosco</b>	<b>Meritus</b>	<b>PWSI</b>
Low	5.4% - 5.7%	3.6% - 4.7%	5.4% - 5.6%
High	5.4% - 5.7%	3.6% - 4.7%	5.4% - 5.6%
Management	4.6% - 5.2%	3.6% - 5.1%	3.8% - 4.1%

# Income approach: Liquor Distribution Companies (3 of 4)

## General and administrative expenses

Management has projected general and administrative expenses to grow at an annual rate of 10.0% to 20.0%. Assuming this level of growth in the long term may not be sustainable as the companies should also take into account potential economies of scale and stable level of operations.

For outside services, we generally deferred to Management's assumptions from 2020 to 2022 to consider incremental costs expected by Management over the recovery phase. Subsequently, we used annual price escalation based on EIU's Philippine inflation forecast.

Based on discussions with Management, no retrenchments were made in 2020 and its existing manpower can support the forecasted performance. As such, salaries and wages were grown by nominal GDP for 2021 onwards.

For other general and administrative expenses, we generally deferred to Management's assumptions in 2020 to 2022 to consider their immediate strategies and recovery plans.

Subsequently, we used annual price escalation based on EIU's Philippine inflation forecast.

## **Working Capital**

Generally, the net working capital assumptions for the low and high cases consider historical and contractual terms between the entities and their suppliers/customers.

## **Days Sales Outstanding ("DSO")**

Each Liquor Distribution Company has its own dedicated credit and collection team that monitors outstanding receivables.

The Management has been able to significantly improve their collections in 2020 through stricter implementation of credit terms with customers and policies on release of products.

Generally, we have considered a DSO of 45 days based on the average contractual terms stated in the audited financial statements of 30 to 60 days for the low and high cases, except for PWSI where we assumed that the 9M2020 DSO of 117 days will improve to Management's assumption of 45 days by 2025, given its historical experience.

## **Days Sales Outstanding**

### **In days**

	<b>Montosco</b>	<b>Meritus</b>	<b>PWSI</b>
Low	45	45	45 - 117
High	45	45	45
Management	45	45	45

# Income approach: Liquor Distribution Companies (4 of 4)

## Days Inventory Outstanding (“DIO”)

The low and high case assumptions for Montosco are based on its average historical DIO given its stable portfolio and existing distribution network.

For Meritus and PWSI, we assumed a linear improvement from their 2019 DIO to 120 days by 2025 given (1) Meritus’ ongoing initiatives to offload Fundador stocks that were previously retained and (2) PWSI’s ongoing initiatives to streamline its brand portfolio.

## Days Inventory Outstanding

In days

	Montosco	Meritus	PWSI
Low	177	120 - 263	120 - 166
High	177	120 - 263	120 - 166
Management	120	120	120

## Days Payable Outstanding (“DPO”)

Management has existing credit terms with foreign suppliers. For new brands / entities, Management intends to obtain more favorable terms from their suppliers to optimize their cash management policies.

The low and high case DPO assumptions are based on the average historical DPO except for PWSI where we deferred to Management assumptions to consider negotiations with suppliers given ongoing streamlining of brands.

## Days Payable Outstanding

In days

	Montosco	Meritus	PWSI
Low	40	26	60
High	40	26	60
Management	30	30	60

## Capital expenditures (“capex”)

Growth and replacement capex

The Liquor Distribution Companies’ business model does not involve the need for significant investments in property and equipment since the majority of storage and distribution is outsourced to third-party logistics providers. As such, Management expects minimal additional capex to support expected growth in operations. The planned capex is mainly to replace existing assets, which are mostly for office or administrative use (e.g. leasehold improvements on their offices, transportation and delivery equipment, among others).

We have considered replacement capex for all cases. Replacement capex refers to the capital outlays needed to replace assets that have fully depreciated within the forecast period.

Maintenance capex

Maintenance capex, which refers to preventive maintenance costs that the Management expects to incur to utilize the existing property and equipment up to perpetuity, was also considered for all cases. In the terminal year, we assumed that fixed assets are regularly maintained for the continuing operations of the business until perpetuity.

# Net debt and non-operating assets and liabilities

## Liquor Distribution Companies

### Net debt and debt-like items - 30 Sep 2020

PHP in millions

	Montosco	Meritus	PWSI
Cash	1,572.7	42.0	375.1
Notes and short-term loans payable	-	(77.0)	(163.0)
Due to related parties	-	-	(192.9)
Dividends payable	-	-	(100.0)
Retirement benefits liability	(2.3)	(0.8)	(12.0)
<b>Total</b>	<b>1,570.3</b>	<b>(35.8)</b>	<b>(92.7)</b>

### Non-operating assets and liabilities (“NOAL”) - 30 Sep 2020

PHP in millions

	Montosco	Meritus	PWSI
<b>A</b> Non-trade and other receivables	-	41.2	23.3
<b>B</b> Investment in associate	-	-	106.5
<b>C</b> Other assets and liabilities	3.8	(4.4)	16.1
<b>Total</b>	<b>3.8</b>	<b>36.9</b>	<b>145.9</b>

**A Non-trade receivables** - receivables from suppliers for the reimbursements of expenses incurred for brand promotions.

**B Investment in an associate** - equity investment in Pernod Ricard measured using the equity method as of the Valuation Date.

**C Other assets and liabilities** - include security deposits and non-trade payables.

Note: Numbers may not add up due to rounding differences

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8 April 2021

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# Market approach: Liquor Distribution

## Market approach using comparable company analysis

Using Standard and Poor's Capital IQ ("CapIQ"), we screened for companies that have a similar business model to the Subject Entities'. We selected comparable companies to establish a range of values. The following criteria were used:

- a. Publicly listed and currently operating
- b. Business model includes distribution of liquor or food products
- c. Located within Asia

*Please refer to the Appendix 2 for a detailed description of the comparable companies.*

## Range of relative values based on forward trading multiples

We determined the value by applying the forward P/E multiples of the comparable companies to the Subject Entities' forecasted net income, which is based on the average between the low and high cases, and added any non-operating assets and liabilities.

We estimated the forward multiples of trading comps by assuming that the 2019 earnings would recover by 2021, in line with the alcoholic beverage industry reports by Fitch Solutions for their respective countries. We then estimated the 2022 earnings of the comparable companies by growing the 2021 earnings using the historical earnings growth of the comparable companies (i.e. CAGR 2016 - 2019) for the Liquor Distribution Companies.

## Market approach using precedent transactions analysis

We estimated the range of values of the Subject Entities using the announced P/E multiples of precedent transactions. The selection process considered targets with the same business model as the Subject Entities as well as the availability of P/E multiples.

*Please refer to the Appendix 3 for a detailed description of the comparable companies.*

## Range of relative values based on recent transactions

Multiples based on previous similar transactions are multiplied to the Subject Entities' forecasted net income, then adjusted for any NOAL to estimate equity values.

## Control premium

Situational adjustments may be required to incorporate the valuation impact of specific issues. A controlling ownership position in a company carries with it control of the board of directors and valuation options of redeploying the company's assets or changing the company's capital structure. The value of a stock investment that would give an investor a controlling position will generally reflect a control premium; that is, it will be higher than a valuation produced by a generic quantitative valuation expression that did not explicitly consider such a premium.

A control premium of 20.0% was applied to the multiples used for the comparable company analysis and the minority stake transactions under the precedent transaction analysis for the Liquor Distribution Companies.

## Discount due to lack of liquidity

A 20.0% discount was applied to the multiples used for the precedent transactions analysis of the Liquor Distribution Companies, due to lower liquidity in the market as at the Valuation Date brought about by the pandemic.

# Market approach: Montosco

## Estimating forecasted net income

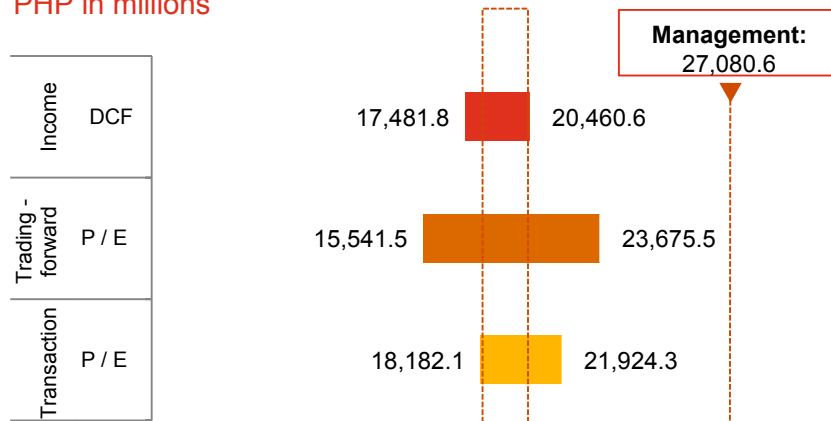
Given that the performance in the first nine months of 2020 may not be representative of the stable operations of the Liquor Distribution Companies, we used forecasted earnings in 2022 to reflect its normalized level. We used the average between the low and high case net income by 2022 for the trading and transaction comparables approach.

### Forecasted net income

PHP in millions	2022
Low case	1,099.2
High case	1,267.2
<b>Average</b>	<b>1,183.2</b>

### Montosco's range of equity values

PHP in millions



Source: S&P CapIQ, PwC Analysis

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PwC | Project Integra

## Estimated Equity values using forward trading and transaction multiples

The estimated range of equity values of Montosco based on forward trading and precedent transaction multiples are summarized below:

### Valuation using comparable companies (Forward P/E)

PHP in millions

Scenario	Adjusted Forward P/E	Estimated 2022 net income	Implied equity value, before NOAL	NOAL	Implied equity value
Low	13.1	1,183.2	15,537.7	3.8	15,541.5
Base	16.5	1,183.2	19,535.4	3.8	19,539.3
High	20.0	1,183.2	23,671.7	3.8	23,675.5

### Valuation using recent transactions (Forward P/E)

PHP in millions

Scenario	Adjusted P/E	Estimated 2022 net income	Implied equity value, before NOAL	NOAL	Implied equity value
Low	15.4	1,183.2	18,178.3	3.8	18,182.1
Base	17.2	1,183.2	20,360.6	3.8	20,364.4
High	18.5	1,183.2	21,920.5	3.8	21,924.3

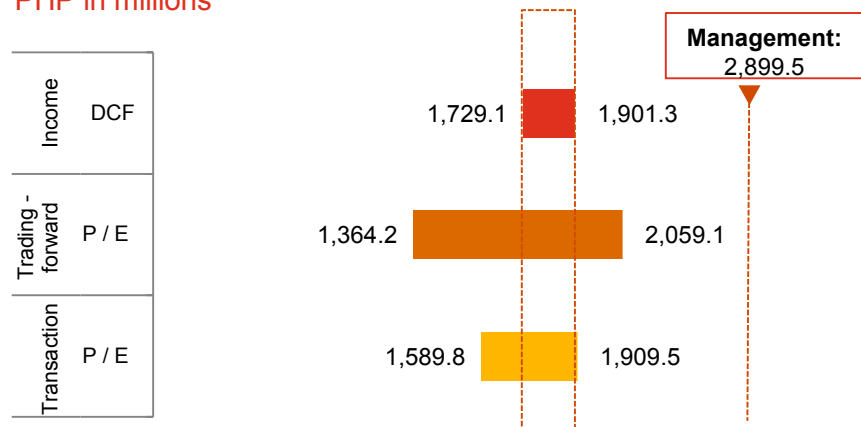
Note: Numbers may not add up due to rounding differences.



# Market approach: Meritus

## Meritus' range of equity values

PHP in millions



## Forecasted net income

The average between the low and high case net income by 2022 is shown in the table below.

## Forecasted net income

PHP in millions

	2022
Low case	95.4
High case	106.8
<b>Average</b>	<b>101.1</b>

## Estimated Equity values using forward trading and transaction multiples

The estimated range of equity values of Meritus based on forward trading and precedent transaction multiples are summarized below:

## Valuation using comparable companies (Forward P/E)

PHP in millions

Scenario	Adjusted Forward P/E	Estimated 2022 net income	Implied equity value, before NOAL	NOAL	Implied equity value
Low	13.1	101.1	1,327.3	36.9	1,364.2
Base	16.5	101.1	1,668.9	36.9	1,705.7
High	20.0	101.1	2,022.2	36.9	2,059.1

## Valuation using recent transactions (Forward P/E)

PHP in millions

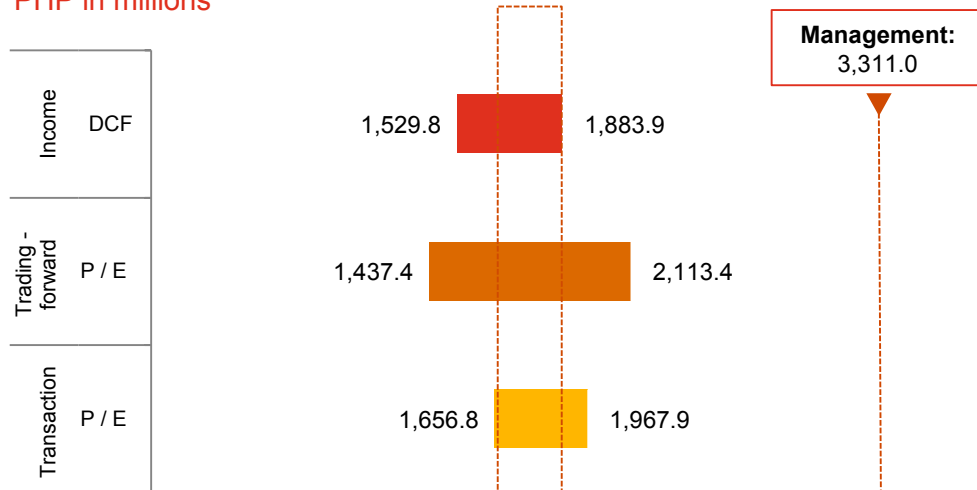
Scenario	Adjusted P/E	Estimated 2022 net income	Implied equity value, before NOAL	NOAL	Implied equity value
Low	15.4	101.1	1,552.9	36.9	1,589.8
Base	17.2	101.1	1,739.3	36.9	1,776.2
High	18.5	101.1	1,872.6	36.9	1,909.5

Note: Numbers may not add up due to rounding differences.

# Market approach: PWSI

## PWSI's range of equity values

PHP in millions



## Forecasted net income

PHP in millions

	2022
Low case	86.2
High case	110.5
<b>Average</b>	<b>98.3</b>

## Estimated Equity values using forward trading and transaction multiples

The estimated range of equity values of PWSI based on forward trading and precedent transaction multiples are summarized below:

## Valuation using comparable companies (Forward P/E)

PHP in millions

Scenario	Adjusted Forward P/E	Estimated 2022 net income	Implied equity value, before NOAL	NOAL	Implied equity value
Low	13.1	98.3	1,291.5	145.9	1,437.4
Base	16.5	98.3	1,623.7	145.9	1,769.6
High	20.0	98.3	1,967.5	145.9	2,113.4

## Valuation using recent transactions (Forward P/E)

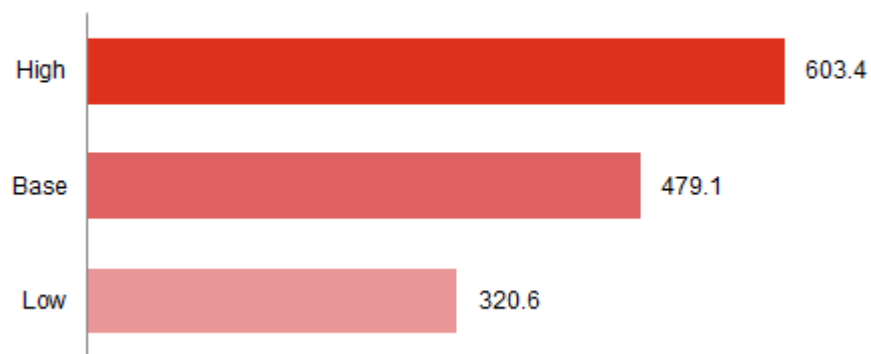
PHP in millions

Scenario	Adjusted P/E	Estimated 2022 net income	Implied equity value, before NOAL	NOAL	Implied equity value
Low	15.4	98.3	1,510.9	145.9	1,656.8
Base	17.2	98.3	1,692.3	145.9	1,838.2
High	18.5	98.3	1,822.0	145.9	1,967.9

Note: Numbers may not add up due to rounding differences.

# Market approach: Listed Shell Company (1 of 2)

## Shell Premium Analysis PHP in millions



## Shell premium analysis

Since Da Vinci is listed on the Philippine Stock Exchange (PSE) and has no significant operations yet, the minimum value that may be considered is the shell value of a publicly-listed company.

A private company may take over a publicly-listed one for the purpose of a reverse takeover. In this deal, there are instances where the target company had no active businesses or significant assets. We reviewed such transactions in the case of the PSE and determined that buyers would pay a premium over the net book value of a shell company.

We estimated the premium for the stake acquired by deducting the target's net book value ("NBV") as of the acquisition date (or latest reporting date, whichever was disclosed) from the consideration paid by the acquirer.

Our analysis is based on estimating this shell premium and adding it to the book value of Da Vinci, resulting in an implied price of a publicly-listed shell company that a buyer is willing to pay for a vehicle that will take a company public instead of spending time and resources going through the regulatory and public offering processes. For purposes of this analysis, the assumed book value of Da Vinci is zero given the potential non-recovery of creditable withholding taxes by the Liquor Distribution Companies.

We then grossed-up the premium to reflect the implied shell value for the whole business

## Shell comparable data

We filtered comparable transactions based on the following criteria:

- Target is listed on the PSE and had no revenues from its identified main business segment by the time the transaction was completed;
- Transaction took place in the last ten years; and
- The transaction was made for the purpose of a reverse takeover.

## Comparable shell transactions

Comparable shell transactions and their respective implied shell values are shown in the table below.

PHP in millions (except for percentages)	NBV of ownership acquired	Consideration	Implied shell premium*	Ownership acquired	Implied shell value**
Philab Holdings, Inc. (2016)	20.2	362.3	342.2	66.7%	513.2
Southeast Asia Cement Holdings, Inc. (2014)	2,349.8	2,891.9	542.0	89.8%	603.4
Mariwasa Siam Holdings, Inc. (2013)	20.0	292.5	272.5	85.0%	320.6

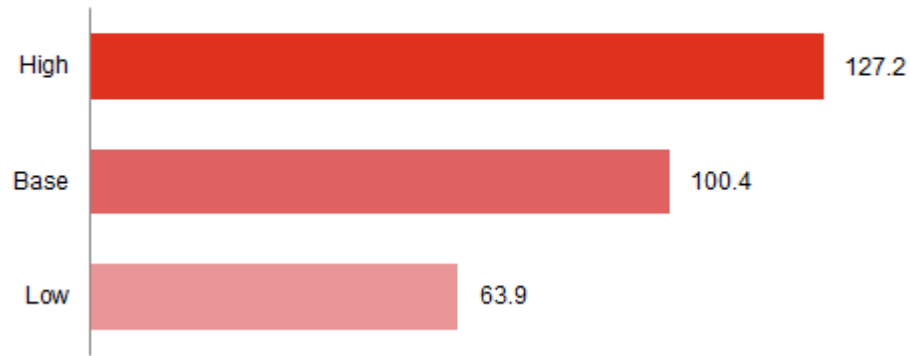
Notes:

\* Implied shell premium for the ownership stake acquired

\*\* Implied shell value (i.e. grossed-up shell premium)

# Market approach: Listed Shell Company (2 of 2)

## Trading - P / BV PHP in millions



## Market approach using comparable company analysis

We valued Da Vinci by looking at the P / BV ratio of similar companies, which reflects the value that market participants attach to a company's equity relative to its book value. The P / BV ratio is useful because the book value of equity provides a relatively stable and intuitive metric that is easily compared to market price. It can also be used for companies with positive book values but zero or negative earnings.

We filtered comparable companies based on the following criteria:

- Company must be based in the Philippines
- No significant operations
- No revenues generated
- No material balance sheet assets

## Estimated equity values using trading multiples

The estimated range of equity values of Da Vinci based on trading multiples are summarized below.

## Valuation using comparable companies (P / BV)

PHP in millions

Scenario	Trailing P / BV	Book value of equity	Implied equity value
Low	4.4	14.4	63.9
Base	6.9	14.4	100.4
High	8.8	14.4	127.2

# Appendices

# Appendix 1: Discount rate - Liquor Distribution Companies

## Cost of Capital

### Nominal PHP figures

Calculation	
PHP Risk-free rate ( $R_f$ )	4.9%
Debt/Equity ratio (D/E)	0.3%
Equity Beta	0.71
Philippine market risk premium (MRP)	6.9%
Size premium	0.5%
Cost of Equity ( $K_e$ )	<b>10.3%</b>
Tax	30.0%
Pre-tax Cost of Debt ( $K_d$ )	6.4%
Post-tax Cost of Debt	<b>4.5%</b>
<b>Post-Tax WACC (%), rounded</b>	<b>10.0%</b>

### Notes:

12-month average yield on 10-year Philippine treasury bonds for the period ended 29 Feb 2020 to consider the pre-COVID-19 normalized risk-free rate

Average debt/equity ratio of comparable companies

Average relevered beta based on analysis on comparable companies

Damodaran's normalized equity market risk premium rating for the Philippines

CRSP decile methodology on size premium

Philippine corporate tax rate of 30.0%

Normalized risk-free rate, adjusted for the implied default spread of Cosco's 10-year loan



# Appendix 2: Comparable companies - Liquor Distribution

Company	Country	Description
Harrisons Holdings (Malaysia) Berhad	Malaysia	Harrisons Holdings (Malaysia) Berhad, an investment holding company, <b>markets, sells, and distributes</b> building materials, industrial and agricultural chemical products, <b>liquor products, and consumer goods</b> primarily in Malaysia. It operates through Trade and Distribution, Retail, and Shipping and Others segment. <b>The company offers packaged food and beverages</b> , personal care products, pet care, <b>wines, beers</b> , and household products Further, it operates as an insurance agency; rents properties; and operates a wine shop. The company was formerly known as Jantoco Trading Sdn Bhd and changed its name to Harrisons Holdings (Malaysia) Berhad in October 1991. Harrisons Holdings (Malaysia) Berhad was incorporated in 1990 and is based in Kuala Lumpur, Malaysia.
Premier Marketing Public Company Limited	Thailand	Premier Marketing Public Company Limited <b>distributes consumer products</b> in Thailand, Japan, and internationally. The company operates in three segments: Distribution of Consumer Products, Manufacture of Food, and Cold Storage Warehouse and Services. It <b>distributes</b> snack foods, confectionery, <b>food and beverages</b> , nutrition food and supplements, and personal care products. It also manufactures and sells fish strips and fish sheets under the Taro brand name; fried seaweed products under the Taro Biggu brand; and tuna related products, such as pouched and canned ready-to-eat tuna, and tuna pet food under the customer brand. In addition, the company manufactures ketchup and chilli sauce under the King's Kitchen brand; and frozen processed food. The company distributes its products through wholesalers and sales staff; and general retailers, including trade stores. It also exports its tuna products to Asia, Europe, and the Middle East. Premier Marketing Public Company Limited was incorporated in 1977 and is based in Bangkok, Thailand.
Saha Pathanapibul Public Company Limited	Thailand	Saha Pathanapibul Public Company Limited, together with its subsidiaries, <b>distributes consumer goods</b> in Thailand and internationally. The company <b>distributes food and beverage</b> , household, and personal care products. It also invests in real estate; rents office buildings; and provides instant noodles, mineral water, and dairy products, as well as plastic packaging products. The company offers its products through 90,000 distribution channels. Saha Pathanapibul Public Company Limited was founded in 1942 and is based in Bangkok, Thailand.
Delfi Limited	Singapore	Delfi Limited, an investment holding company, manufactures and <b>distributes chocolate confectionery products</b> in Indonesia, the Philippines, Malaysia, Singapore, and internationally. Its products include molded chocolates, dragees, enrobed wafers, biscuits, chocolate spreads, baking condiments, and beverages. The company also <b>distributes a range of food, healthcare, and other consumer products</b> , including agency brands; and provides management consulting and administrative services. It markets its products under the Delfi, SilverQueen, Van Houten, Ceres, TOP, Selamat, Goya, and Knick Knacks brand names through hypermarkets, supermarkets, wholesalers, and chain stores. The company was formerly known as Petra Foods Limited and changed its name to Delfi Limited in May 2016. Delfi Limited was founded in 1984 and is headquartered in Singapore.

Source: S&P CapIQ

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# Appendix 2: Comparable companies - Listed Shell Company

Company	Country	Description
Asiabest Group International, Inc.	Philippines	Asiabest Group International, Inc. does not have significant operations. Previously, it was involved in mining business. The company was formerly known as AGP Industrial Corporation and changed its name to Asiabest Group International, Inc. in March 2012. The company was incorporated in 1970 and is headquartered in Makati City, the Philippines. Asiabest Group International, Inc. is a subsidiary of Tiger Resort Asia Limited.
Lodestar Investment Holdings Corporation	Philippines	Lodestar Investment Holdings Corporation does not have significant operations. Previously, it was engaged in the development of various gold and chromite mining claims in Masbate, Cebu, Negros Occidental, and Palawan in the Philippines. The company was formerly known as Lodestar Mining Corporation and changed its name to Lodestar Investment Holdings Corporation in October 2003. Lodestar Investment Holdings Corporation was incorporated in 1974 and is headquartered in Mandaluyong City, the Philippines.
LMG Corp.	Philippines	LMG Corp. does not have significant operations. Previously, the company was engaged in the chemical trading business. The company was formerly known as LMG Chemicals Corporation. The company was incorporated in 1970 and is headquartered in Pasig City, the Philippines.

Source: S&P CapIQ

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# Appendix 3: Comparable transactions - Liquor Distribution

Company	Transaction date	Business description of Target
HD Distributors (Thailand) Company Limited	30-Apr-16	HD Distributors (Thailand) Company Limited <b>imports, distributes, and markets</b> Häagen-Dazs branded ice creams. It sells products through hotels, cafes, restaurants, hypermarkets, and supermarkets. The company was founded in 1994 and is based in Bangkok, Thailand. HD Distributors (Thailand) Company Limited is a former subsidiary of General Mills, Inc.
I.C.C. International Public Company Limited	30-Sep-15	I.C.C. International Public Company Limited <b>distributes consumer products</b> in Thailand and internationally. The company also provides tops, pants, skirts, underwear, bags, shoes, accessories, beds, and other products for kids and babies, as well as products for newborn. In addition, it offers leather goods, watches, home appliances, foods, soy milk mixed with corn, drinking and spring water, etc., as well as and household items, such as laundry detergent and fabric care products. Further, the company is also involved in the manufacturing of ready-made garments; and real estate activities. It sells its products through shops and department stores, as well as online channels. The company was formerly known as International Cosmetics Public company Limited and changed its name to I.C.C. International Public Company Limited in 1996. I.C.C. International Public Company Limited was founded in 1964 and is headquartered in Bangkok, Thailand.
Yangzhou Huiyin Technology Group Co.,Ltd.	30-Nov-07	Yangzhou Huiyin Technology Group Co.,Ltd. <b>engages in the wholesale</b> and retail of <b>food and dairy products</b> . It is also involved in the <b>wholesale</b> and retail of home electricity products, computer and <b>consumable materials</b> , textiles, and industrial goods; and provision of home electricity repair and installment services. Yangzhou Huiyin Technology Group Co.,Ltd. was formerly known as Yangzhou Huiyin Household Appliances (Group) Co.,Ltd. The company was founded in 2002 and is based in Yangzhou, China. Yangzhou Huiyin Technology Group Co.,Ltd. operates as a subsidiary of operates as a subsidiary of Huiyin Smart Community Co., Ltd.

Source: S&P CapIQ

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# Appendix 3: Comparable transactions - Listed Shell Company

Target company	Background	Acquirer
Philab Holdings, Inc.	On 12 August 2016, a SPA was entered into between a group of shareholders of Alterra Capital Partners for the sale of an aggregate of 208,624,801 shares constituting 67% of ALT's total issued and outstanding capital stock for a total consideration of PHP362,324,961.21 or PHP1.74 per share	Genomics, Inc. and Hector Thomas A. Navasero
Southeast Asia Cement Holdings, Inc.	PGMC bought 6.29bn SEACEM shares at PHP0.46 per share, representing 89.87% of its total issued and outstanding stock.	Platinum Group Metals Corporation
Mariwasa Siam Holdings Inc.	a) Invescap Inc. purchased 85% ownership of Mariwasa Siam Holdings, Inc. b) BOD passed a resolution to change the name of Mariwasa to Da Vinci Capital Holdings Inc.	INVESCAP, Inc.

Source: S&P CapIQ, Public Information, Company Disclosures

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# Appendix 4: Montosco - Low case

PHP in millions	2019	2020	2021	2022	2023	2024	2025	Terminal value
Revenue	7,589.4	5,758.4	7,412.0	8,783.5	9,956.0	11,167.6	12,000.2	176,575.1
Cost of sales	(5,704.8)	(4,357.3)	(5,608.5)	(6,646.2)	(7,533.5)	(8,450.3)	(9,080.3)	(133,610.3)
<b>Gross profit</b>	<b>1,884.6</b>	<b>1,401.2</b>	<b>1,803.5</b>	<b>2,137.2</b>	<b>2,422.5</b>	<b>2,717.3</b>	<b>2,919.9</b>	<b>42,964.8</b>
Operating expenses, before depreciation	(498.9)	(417.0)	(547.2)	(649.5)	(726.5)	(805.5)	(862.2)	(12,687.3)
<b>EBITDA</b>	<b>1,385.7</b>	<b>984.2</b>	<b>1,256.3</b>	<b>1,487.7</b>	<b>1,696.0</b>	<b>1,911.8</b>	<b>2,057.7</b>	<b>30,277.4</b>
Depreciation	(3.2)	(2.4)	(3.1)	(3.8)	(3.4)	(1.8)	(1.6)	(24.2)
Interest expense	(34.7)	-	-	-	-	-	-	-
<b>EBT</b>	<b>1,347.8</b>	<b>981.8</b>	<b>1,253.2</b>	<b>1,483.9</b>	<b>1,692.6</b>	<b>1,910.1</b>	<b>2,056.0</b>	<b>30,253.2</b>
Income tax expense	(364.5)	(252.2)	(324.6)	(384.7)	(436.1)	(489.1)	(525.6)	(7,733.7)
<b>Net income / (loss)</b>	<b>983.3</b>	<b>729.6</b>	<b>928.6</b>	<b>1,099.2</b>	<b>1,256.6</b>	<b>1,420.9</b>	<b>1,530.5</b>	<b>22,519.6</b>
<b>FCFF</b>								
Net income		729.6	928.6	1,099.2	1,256.6	1,420.9	1,530.5	22,519.6
Interest expense		-	-	-	-	-	-	-
Depreciation		2.4	3.1	3.8	3.4	1.8	1.6	24.2
Change in NWC		(206.0)	(652.0)	(423.3)	(477.8)	(473.0)	(358.3)	-
Replacement capex		-	(3.5)	(3.6)	(0.2)	(0.2)	-	-
<b>FCFF, undiscounted</b>		<b>526.0</b>	<b>276.2</b>	<b>676.2</b>	<b>781.9</b>	<b>949.4</b>	<b>1,173.8</b>	<b>22,543.8</b>
Maintenance capex		-	-	-	-	-	-	(24.2)
Change in NWC (stable)		-	-	-	-	-	-	(2,169.9)
<b>FCFF, undiscounted</b>		<b>526.0</b>	<b>276.2</b>	<b>676.2</b>	<b>781.9</b>	<b>949.4</b>	<b>1,173.8</b>	<b>20,349.6</b>
Partial period								
PV factor		WACC	TGR					
		10.0%	3.0%	0.2541	1.0000	1.0000	1.0000	1.0000
				0.9880	0.9306	0.8460	0.7691	0.6992
								0.6356
<b>FCFF, discounted</b>		<b>132.0</b>	<b>257.1</b>	<b>572.1</b>	<b>601.4</b>	<b>663.8</b>	<b>746.1</b>	<b>12,935.2</b>
<b>Sum of PV of FCFF</b>				<b>15,907.7</b>				
Non-operating assets & liabilities				3.8				
<b>Enterprise value, 30-Sep-20</b>				<b>15,911.5</b>				
Net cash / (debt)				1,570.3				
<b>Equity value, 30-Sep-20</b>				<b>17,481.8</b>				

Notes:

- (1) Midyear discounting was applied to FCFF.
- (2) Numbers may not add up due to rounding differences.

# Appendix 4: Montosco - High case

PHP in millions	2019	2020	2021	2022	2023	2024	2025	Terminal value
Revenue	7,589.4	5,758.4	8,108.5	9,981.9	11,580.1	13,276.2	14,432.1	212,357.7
Cost of sales	(5,704.8)	(4,357.3)	(6,135.5)	(7,553.0)	(8,762.4)	(10,045.8)	(10,920.4)	(160,686.2)
<b>Gross profit</b>	<b>1,884.6</b>	<b>1,401.2</b>	<b>1,973.0</b>	<b>2,428.8</b>	<b>2,817.7</b>	<b>3,230.4</b>	<b>3,511.7</b>	<b>51,671.5</b>
Operating expenses, before depreciation	(498.9)	(417.0)	(588.5)	(720.6)	(822.8)	(930.5)	(1,006.4)	(14,808.5)
<b>EBITDA</b>	<b>1,385.7</b>	<b>984.2</b>	<b>1,384.5</b>	<b>1,708.2</b>	<b>1,994.9</b>	<b>2,299.9</b>	<b>2,505.2</b>	<b>36,862.9</b>
Depreciation	(3.2)	(2.4)	(3.1)	(3.8)	(3.4)	(1.8)	(1.6)	(24.2)
Interest expense	(34.7)	-	-	-	-	-	-	-
<b>EBT</b>	<b>1,347.8</b>	<b>981.8</b>	<b>1,381.4</b>	<b>1,704.4</b>	<b>1,991.5</b>	<b>2,298.1</b>	<b>2,503.6</b>	<b>36,838.7</b>
Income tax expense	(364.5)	(252.2)	(355.1)	(437.2)	(507.2)	(581.5)	(632.1)	(9,300.9)
<b>Net income / (loss)</b>	<b>983.3</b>	<b>729.6</b>	<b>1,026.2</b>	<b>1,267.2</b>	<b>1,484.3</b>	<b>1,716.7</b>	<b>1,871.5</b>	<b>27,537.9</b>
<b>FCFF</b>								
Net income		729.6	1,026.2	1,267.2	1,484.3	1,716.7	1,871.5	27,537.9
Interest expense		-	-	-	-	-	-	-
Depreciation		2.4	3.1	3.8	3.4	1.8	1.6	24.2
Change in NWC		(206.0)	(903.3)	(632.4)	(651.6)	(663.0)	(496.2)	-
Replacement capex		-	(3.5)	(3.6)	(0.2)	(0.2)	-	-
<b>FCFF, undiscounted</b>		<b>526.0</b>	<b>122.6</b>	<b>635.1</b>	<b>835.9</b>	<b>1,055.2</b>	<b>1,376.9</b>	<b>27,562.1</b>
Maintenance capex		-	-	-	-	-	-	(24.2)
Change in NWC (stable)		-	-	-	-	-	-	(2,607.3)
<b>FCFF, undiscounted</b>		<b>526.0</b>	<b>122.6</b>	<b>635.1</b>	<b>835.9</b>	<b>1,055.2</b>	<b>1,376.9</b>	<b>24,930.6</b>
Partial period			0.2541	1.0000	1.0000	1.0000	1.0000	1.0000
PV factor			0.9880	0.9306	0.8460	0.7691	0.6992	0.6356
<b>FCFF, discounted</b>			<b>132.0</b>	<b>114.1</b>	<b>537.3</b>	<b>642.9</b>	<b>737.8</b>	<b>15,847.0</b>
<b>Sum of PV of FCFF</b>			<b>18,886.5</b>					
Non-operating assets & liabilities			3.8					
<b>Enterprise value, 30-Sep-20</b>			<b>18,890.3</b>					
Net cash / (debt)			1,570.3					
<b>Equity value, 30-Sep-20</b>			<b>20,460.6</b>					

Notes:

- (1) Midyear discounting was applied to FCFF.
- (2) Numbers may not add up due to rounding differences.



# Appendix 4: Montosco - Management case

PHP in millions	2019	2020	2021	2022	2023	2024	2025	Terminal value
Revenue	7,589.4	5,758.4	7,482.9	9,727.7	11,673.3	14,007.9	16,809.5	247,339.6
Cost of sales	(5,704.8)	(4,234.6)	(5,537.3)	(7,295.8)	(8,754.9)	(10,505.9)	(12,607.1)	(185,504.7)
<b>Gross profit</b>	<b>1,884.6</b>	<b>1,523.8</b>	<b>1,945.5</b>	<b>2,431.9</b>	<b>2,918.3</b>	<b>3,502.0</b>	<b>4,202.4</b>	<b>61,834.9</b>
Operating expenses, before depreciation	(498.9)	(369.8)	(503.9)	(634.2)	(749.6)	(887.0)	(1,050.8)	(15,461.4)
<b>EBITDA</b>	<b>1,385.7</b>	<b>1,154.0</b>	<b>1,441.7</b>	<b>1,797.8</b>	<b>2,168.7</b>	<b>2,615.0</b>	<b>3,151.6</b>	<b>46,373.5</b>
Depreciation	(3.2)	(2.4)	(3.1)	(3.8)	(3.4)	(1.8)	(1.6)	(24.2)
Interest expense	(34.7)	-	-	-	-	-	-	-
<b>EBT</b>	<b>1,347.8</b>	<b>1,151.6</b>	<b>1,438.6</b>	<b>1,793.9</b>	<b>2,165.3</b>	<b>2,613.2</b>	<b>3,150.0</b>	<b>46,349.3</b>
Income tax expense	(364.5)	(274.3)	(350.2)	(437.7)	(525.3)	(630.4)	(756.4)	(11,130.3)
<b>Net income / (loss)</b>	<b>983.3</b>	<b>877.3</b>	<b>1,088.4</b>	<b>1,356.2</b>	<b>1,640.0</b>	<b>1,982.9</b>	<b>2,393.5</b>	<b>35,219.0</b>
<b>FCFF</b>								
Net income		877.3	1,088.4	1,356.2	1,640.0	1,982.9	2,393.5	35,219.0
Interest expense		-	-	-	-	-	-	-
Depreciation		2.4	3.1	3.8	3.4	1.8	1.6	24.2
Change in NWC		(203.4)	12.4	(533.6)	(599.2)	(690.8)	(851.8)	-
Replacement capex		-	(3.5)	(3.6)	(0.2)	(0.2)	-	-
<b>FCFF, undiscounted</b>		<b>676.3</b>	<b>1,100.4</b>	<b>822.9</b>	<b>1,044.0</b>	<b>1,293.6</b>	<b>1,543.4</b>	<b>35,243.2</b>
Maintenance capex		-	-	-	-	-	-	(24.2)
Change in NWC (stable)		-	-	-	-	-	-	(2,295.3)
<b>FCFF, undiscounted</b>		<b>676.3</b>	<b>1,100.4</b>	<b>822.9</b>	<b>1,044.0</b>	<b>1,293.6</b>	<b>1,543.4</b>	<b>32,923.7</b>
Partial period								
PV factor		WACC	TGR					
		10.0%	3.0%	0.2541	1.0000	1.0000	1.0000	1.0000
				0.9880	0.9306	0.8460	0.7691	0.6992
								0.6356
<b>FCFF, discounted</b>				<b>169.8</b>	<b>1,024.1</b>	<b>696.2</b>	<b>803.0</b>	<b>904.5</b>
								<b>981.1</b>
								<b>20,927.8</b>
<b>Sum of PV of FCFF</b>				<b>25,506.5</b>				
Non-operating assets & liabilities				3.8				
<b>Enterprise value, 30-Sep-20</b>				<b>25,510.3</b>				
Net cash / (debt)				1,570.3				
<b>Equity value, 30-Sep-20</b>				<b>27,080.6</b>				

Notes:

- (1) Midyear discounting was applied to FCFF.
- (2) Numbers may not add up due to rounding differences.

# Appendix 4: Meritus - Low case

PHP in millions	2019	2020	2021	2022	2023	2024	2025	Terminal value
Revenue	958.8	711.7	841.1	995.6	1,126.1	1,189.4	1,251.6	18,415.8
Cost of sales	(780.1)	(554.3)	(655.1)	(775.4)	(877.0)	(926.3)	(974.7)	(14,342.6)
<b>Gross profit</b>	<b>178.7</b>	<b>157.4</b>	<b>186.0</b>	<b>220.2</b>	<b>249.1</b>	<b>263.1</b>	<b>276.8</b>	<b>4,073.2</b>
Operating expenses, before depreciation	(64.9)	(61.5)	(77.1)	(85.2)	(93.7)	(98.9)	(104.2)	(1,533.8)
<b>EBITDA</b>	<b>113.8</b>	<b>95.9</b>	<b>108.9</b>	<b>135.0</b>	<b>155.4</b>	<b>164.1</b>	<b>172.6</b>	<b>2,539.4</b>
Depreciation	(3.9)	(0.5)	(0.7)	(0.8)	(1.0)	(1.1)	(1.1)	(16.5)
Interest expense	(14.8)	(5.9)	(0.7)	-	-	-	-	-
Other income / (expenses)	(4.4)	(3.8)	0.2	0.8	0.8	0.7	0.7	10.0
<b>EBT</b>	<b>90.7</b>	<b>85.7</b>	<b>107.7</b>	<b>135.0</b>	<b>155.2</b>	<b>163.7</b>	<b>172.1</b>	<b>2,532.9</b>
Income tax expense	(28.7)	(25.7)	(32.3)	(39.6)	(44.8)	(47.4)	(49.8)	(733.2)
<b>Net income / (loss)</b>	<b>62.1</b>	<b>60.0</b>	<b>75.4</b>	<b>95.4</b>	<b>110.4</b>	<b>116.4</b>	<b>122.3</b>	<b>1,799.7</b>
<b>FCFF</b>								
Net income		60.0	75.4	95.4	110.4	116.4	122.3	1,799.7
Interest expense		4.1	0.5	-	-	-	-	-
Depreciation		0.5	0.7	0.8	1.0	1.1	1.1	16.5
Change in NWC		342.2	135.2	(20.8)	12.5	59.8	69.8	-
Replacement capex		(0.0)	(1.0)	(2.9)	(1.3)	(0.1)	(0.1)	-
<b>FCFF, undiscounted</b>		<b>406.8</b>	<b>210.7</b>	<b>72.4</b>	<b>122.6</b>	<b>177.1</b>	<b>193.1</b>	<b>1,816.3</b>
Maintenance capex		-	-	-	-	-	-	(16.5)
Change in NWC (stable)		-	-	-	-	-	-	(183.1)
<b>FCFF, undiscounted</b>		<b>406.8</b>	<b>210.7</b>	<b>72.4</b>	<b>122.6</b>	<b>177.1</b>	<b>193.1</b>	<b>1,616.6</b>
Partial period factor			0.2541	1.0000	1.0000	1.0000	1.0000	1.0000
PV factor			0.9880	0.9306	0.8460	0.7691	0.6992	0.6356
<b>FCFF, discounted</b>			<b>102.1</b>	<b>196.1</b>	<b>61.3</b>	<b>94.3</b>	<b>123.8</b>	<b>102.7</b>
<b>Sum of PV of FCFF</b>			<b>1,728.1</b>					
Non-operating assets and liabilities			36.9					
<b>Enterprise value, 30-Sep-20</b>			<b>1,764.9</b>					
Net debt			(35.8)					
<b>Equity value, 30-Sep-20</b>			<b>1,729.1</b>					

Notes:

- (1) Midyear discounting was applied to FCFF.
- (2) Numbers may not add up due to rounding differences.

# Appendix 4: Meritus - High case

PHP in millions	2019	2020	2021	2022	2023	2024	2025	Terminal value
Revenue	958.8	711.7	877.5	1,080.2	1,251.6	1,321.8	1,390.8	20,464.7
Cost of sales	(780.1)	(554.3)	(683.4)	(841.3)	(974.8)	(1,029.5)	(1,083.2)	(15,938.3)
<b>Gross profit</b>	<b>178.7</b>	<b>157.4</b>	<b>194.1</b>	<b>238.9</b>	<b>276.8</b>	<b>292.4</b>	<b>307.6</b>	<b>4,526.4</b>
Operating expenses, before depreciation	(64.9)	(61.5)	(78.9)	(89.1)	(99.5)	(105.1)	(110.7)	(1,629.5)
<b>EBITDA</b>	<b>113.8</b>	<b>95.9</b>	<b>115.2</b>	<b>149.8</b>	<b>177.3</b>	<b>187.2</b>	<b>196.9</b>	<b>2,896.8</b>
Depreciation	(3.9)	(0.5)	(0.7)	(0.8)	(1.0)	(1.1)	(1.1)	(16.5)
Interest expense	(14.8)	(5.9)	(0.7)	-	-	-	-	-
Other income / (expenses)	(4.4)	(3.8)	0.2	0.8	0.8	0.7	0.7	10.0
<b>EBT</b>	<b>90.7</b>	<b>85.7</b>	<b>114.0</b>	<b>149.8</b>	<b>177.1</b>	<b>186.8</b>	<b>196.4</b>	<b>2,890.4</b>
Income tax expense	(28.7)	(25.7)	(34.2)	(43.0)	(49.8)	(52.6)	(55.4)	(814.7)
<b>Net income / (loss)</b>	<b>62.1</b>	<b>60.0</b>	<b>79.8</b>	<b>106.8</b>	<b>127.3</b>	<b>134.2</b>	<b>141.1</b>	<b>2,075.6</b>
<b>FCFF</b>								
Net income		60.0	79.8	106.8	127.3	134.2	141.1	2,075.6
Interest expense		4.1	0.5	-	-	-	-	-
Depreciation		0.5	0.7	0.8	1.0	1.1	1.1	16.5
Change in NWC		342.2	113.9	(44.5)	(1.0)	65.6	77.6	-
Replacement capex		(0.0)	(1.0)	(2.9)	(1.3)	(0.1)	(0.1)	-
<b>FCFF, undiscounted</b>		<b>406.8</b>	<b>193.8</b>	<b>60.2</b>	<b>126.0</b>	<b>200.7</b>	<b>219.7</b>	<b>2,092.1</b>
Maintenance capex		-	-	-	-	-	-	(16.5)
Change in NWC (stable)		-	-	-	-	-	-	(203.5)
<b>FCFF, undiscounted</b>		<b>406.8</b>	<b>193.8</b>	<b>60.2</b>	<b>126.0</b>	<b>200.7</b>	<b>219.7</b>	<b>1,872.1</b>
Partial period factor			0.2541	1.0000	1.0000	1.0000	1.0000	1.0000
PV factor			0.9880	0.9306	0.8460	0.7691	0.6992	0.6356
<b>FCFF, discounted</b>			<b>102.1</b>	<b>180.4</b>	<b>50.9</b>	<b>96.9</b>	<b>140.3</b>	<b>139.6</b>
<b>Sum of PV of FCFF</b>			<b>1,900.3</b>					
Non-operating assets and liabilities			36.9					
<b>Enterprise value, 30-Sep-20</b>			<b>1,937.1</b>					
Net debt			(35.8)					
<b>Equity value, 30-Sep-20</b>			<b>1,901.3</b>					

Notes:

- (1) Midyear discounting was applied to FCFF.
- (2) Numbers may not add up due to rounding differences.

# Appendix 4: Meritus - Management case

PHP in millions	2019	2020	2021	2022	2023	2024	2025	Terminal value
Revenue	958.8	711.7	932.1	1,213.6	1,456.4	1,747.6	2,097.2	30,858.2
Cost of sales	(780.1)	(547.7)	(713.3)	(927.3)	(1,112.8)	(1,335.4)	(1,602.5)	(23,579.0)
<b>Gross profit</b>	<b>178.7</b>	<b>163.9</b>	<b>218.8</b>	<b>286.3</b>	<b>343.5</b>	<b>412.3</b>	<b>494.7</b>	<b>7,279.3</b>
Operating expenses, before depreciation	(64.9)	(66.6)	(90.6)	(104.3)	(120.3)	(139.1)	(161.2)	(2,371.5)
<b>EBITDA</b>	<b>113.8</b>	<b>97.4</b>	<b>128.2</b>	<b>182.0</b>	<b>223.2</b>	<b>273.2</b>	<b>333.5</b>	<b>4,907.7</b>
Depreciation	(3.9)	(0.5)	(0.7)	(0.8)	(1.0)	(1.1)	(1.1)	(16.5)
Interest expense	(14.8)	(5.9)	(0.7)	-	-	-	-	-
Other income / (expenses)	(4.4)	(3.8)	0.2	0.8	0.8	0.7	0.7	10.0
<b>EBT</b>	<b>90.7</b>	<b>87.2</b>	<b>127.0</b>	<b>181.9</b>	<b>223.0</b>	<b>272.7</b>	<b>333.1</b>	<b>4,901.3</b>
Income tax expense	(28.7)	(26.1)	(38.1)	(51.5)	(61.8)	(74.2)	(89.0)	(1,310.3)
<b>Net income / (loss)</b>	<b>62.1</b>	<b>61.0</b>	<b>88.9</b>	<b>130.4</b>	<b>161.2</b>	<b>198.5</b>	<b>244.0</b>	<b>3,591.0</b>
<b>FCFF</b>								
Net income		61.0	88.9	130.4	161.2	198.5	244.0	3,591.0
Interest expense		4.1	0.5	-	-	-	-	-
Depreciation		0.5	0.7	0.8	1.0	1.1	1.1	16.5
Change in NWC		346.9	351.1	(63.3)	(75.4)	(87.2)	(107.5)	-
Replacement capex		(0.0)	(1.0)	(2.9)	(1.3)	(0.1)	(0.1)	-
<b>FCFF, undiscounted</b>		<b>412.6</b>	<b>440.1</b>	<b>65.0</b>	<b>85.5</b>	<b>112.3</b>	<b>137.5</b>	<b>3,607.5</b>
Maintenance capex		-	-	-	-	-	-	(16.5)
Change in NWC (stable)		-	-	-	-	-	-	(289.5)
<b>FCFF, undiscounted</b>		<b>412.6</b>	<b>440.1</b>	<b>65.0</b>	<b>85.5</b>	<b>112.3</b>	<b>137.5</b>	<b>3,301.5</b>
Partial period factor	WACC		0.2541	1.0000	1.0000	1.0000	1.0000	1.0000
PV factor	TGR		0.9880	0.9306	0.8460	0.7691	0.6992	0.6356
<b>FCFF, discounted</b>	<b>10.0%</b>	<b>3.0%</b>	<b>103.6</b>	<b>409.6</b>	<b>55.0</b>	<b>65.8</b>	<b>78.5</b>	<b>2,098.6</b>
<b>Sum of PV of FCFF</b>			<b>2,898.4</b>					
Non-operating assets and liabilities			36.9					
<b>Enterprise value, 30-Sep-20</b>			<b>2,935.3</b>					
Net debt			(35.8)					
<b>Equity value, 30-Sep-20</b>			<b>2,899.5</b>					

Notes:

- (1) Midyear discounting was applied to FCFF.
- (2) Numbers may not add up due to rounding differences.

# Appendix 4: PWSI - Low case

PHP in millions	2019	2020	2021	2022	2023	2024	2025	Terminal value
Revenue	1,449.4	1,204.9	1,426.9	1,663.0	1,863.9	1,941.9	2,015.5	29,656.3
Cost of sales	(1,219.2)	(987.4)	(1,169.3)	(1,362.7)	(1,527.3)	(1,591.3)	(1,651.6)	(24,301.9)
<b>Gross profit</b>	<b>230.2</b>	<b>217.5</b>	<b>257.6</b>	<b>300.2</b>	<b>336.5</b>	<b>350.6</b>	<b>363.9</b>	<b>5,354.4</b>
Operating expenses, before depreciation	(146.0)	(137.1)	(149.4)	(168.7)	(188.7)	(202.0)	(215.9)	(3,176.2)
<b>EBITDA</b>	<b>84.2</b>	<b>80.5</b>	<b>108.2</b>	<b>131.5</b>	<b>147.9</b>	<b>148.7</b>	<b>148.0</b>	<b>2,178.2</b>
Depreciation	(3.0)	(6.1)	(5.3)	(4.1)	(3.1)	(3.1)	(3.8)	(55.5)
Interest expense	(21.2)	(6.1)	(6.1)	(4.2)	(1.2)	-	-	-
<b>EBT</b>	<b>60.0</b>	<b>68.2</b>	<b>96.8</b>	<b>123.2</b>	<b>143.6</b>	<b>145.5</b>	<b>144.3</b>	<b>2,122.7</b>
Income tax expense	(21.4)	(20.5)	(29.1)	(36.9)	(43.1)	(43.7)	(43.3)	(636.8)
<b>Net income / (loss)</b>	<b>38.6</b>	<b>47.8</b>	<b>67.8</b>	<b>86.2</b>	<b>100.5</b>	<b>101.9</b>	<b>101.0</b>	<b>1,485.9</b>
<b>FCFF</b>								
Net income		47.8	67.8	86.2	100.5	101.9	101.0	1,485.9
Interest expense		4.3	4.3	3.0	0.8	-	-	-
Depreciation		6.1	5.3	4.1	3.1	3.1	3.8	55.5
Change in NWC		(4.3)	108.8	58.2	29.6	92.1	107.8	-
Replacement capex		(14.8)	(0.2)	(0.2)	(0.2)	(0.2)	(18.1)	-
<b>FCFF, undiscounted</b>		<b>39.0</b>	<b>185.9</b>	<b>151.3</b>	<b>133.9</b>	<b>196.9</b>	<b>194.5</b>	<b>1,541.4</b>
Maintenance capex		-	-	-	-	-	-	(55.5)
Change in NWC (stable)		-	-	-	-	-	-	(225.0)
<b>FCFF, undiscounted</b>		<b>39.0</b>	<b>185.9</b>	<b>151.3</b>	<b>133.9</b>	<b>196.9</b>	<b>194.5</b>	<b>1,260.9</b>
Partial period			0.2541	1.0000	1.0000	1.0000	1.0000	1.0000
PV factor			0.9880	0.9306	0.8460	0.7691	0.6992	0.6356
<b>FCFF, discounted</b>			<b>9.8</b>	<b>173.0</b>	<b>128.0</b>	<b>103.0</b>	<b>137.7</b>	<b>801.5</b>
<b>Sum of PV of FCFF</b>			<b>1,476.6</b>					
Non-operating assets & liabilities			145.9					
<b>Enterprise value, 30-Sep-20</b>			<b>1,622.5</b>					
Net cash / (debt)			(92.7)					
<b>Equity value, 30-Sep-20</b>			<b>1,529.8</b>					

Notes:

- (1) Midyear discounting was applied to FCFF.
- (2) Numbers may not add up due to rounding differences.

# Appendix 4: PWSI - High case

PHP in millions	2019	2020	2021	2022	2023	2024	2025	Terminal value
Revenue	1,449.4	1,204.9	1,496.6	1,812.7	2,084.6	2,172.0	2,254.3	33,170.4
Cost of sales	(1,219.2)	(976.9)	(1,213.4)	(1,469.7)	(1,690.1)	(1,760.9)	(1,827.7)	(26,893.1)
<b>Gross profit</b>	<b>230.2</b>	<b>228.0</b>	<b>283.2</b>	<b>343.0</b>	<b>394.5</b>	<b>411.0</b>	<b>426.6</b>	<b>6,277.3</b>
Operating expenses, before depreciation	(146.0)	(137.1)	(153.2)	(176.8)	(200.9)	(215.0)	(229.8)	(3,380.7)
<b>EBITDA</b>	<b>84.2</b>	<b>90.9</b>	<b>130.0</b>	<b>166.2</b>	<b>193.6</b>	<b>196.0</b>	<b>196.9</b>	<b>2,896.5</b>
Depreciation	(3.0)	(6.1)	(5.3)	(4.1)	(3.1)	(3.1)	(3.8)	(55.5)
Interest expense	(21.2)	(6.1)	(6.1)	(4.2)	(1.2)	-	-	-
<b>EBT</b>	<b>60.0</b>	<b>78.7</b>	<b>118.6</b>	<b>157.8</b>	<b>189.3</b>	<b>192.9</b>	<b>193.1</b>	<b>2,841.0</b>
Income tax expense	(21.4)	(23.6)	(35.6)	(47.4)	(56.8)	(57.9)	(57.9)	(852.3)
<b>Net income / (loss)</b>	<b>38.6</b>	<b>55.1</b>	<b>83.0</b>	<b>110.5</b>	<b>132.5</b>	<b>135.0</b>	<b>135.2</b>	<b>1,988.7</b>
<b>FCFF</b>								
Net income		55.1	83.0	110.5	132.5	135.0	135.2	1,988.7
Interest expense		4.3	4.3	3.0	0.8	-	-	-
Depreciation		6.1	5.3	4.1	3.1	3.1	3.8	55.5
Change in NWC		(0.5)	78.0	26.6	11.4	99.9	120.0	-
Replacement capex		(14.8)	(0.2)	(0.2)	(0.2)	(0.2)	(18.1)	-
<b>FCFF, undiscounted</b>		<b>50.2</b>	<b>170.4</b>	<b>144.0</b>	<b>147.6</b>	<b>237.8</b>	<b>240.9</b>	<b>2,044.2</b>
Maintenance capex		-	-	-	-	-	-	(55.5)
Change in NWC (stable)		-	-	-	-	-	-	(250.8)
<b>FCFF, undiscounted</b>		<b>50.2</b>	<b>170.4</b>	<b>144.0</b>	<b>147.6</b>	<b>237.8</b>	<b>240.9</b>	<b>1,738.0</b>
Partial period			0.2541	1.0000	1.0000	1.0000	1.0000	1.0000
PV factor			0.9880	0.9306	0.8460	0.7691	0.6992	0.6356
<b>FCFF, discounted</b>			<b>12.6</b>	<b>158.6</b>	<b>121.8</b>	<b>113.5</b>	<b>166.3</b>	<b>1,104.7</b>
<b>Sum of PV of FCFF</b>			<b>1,830.7</b>					
Non-operating assets & liabilities			145.9					
<b>Enterprise value, 30-Sep-20</b>			<b>1,976.6</b>					
Net cash / (debt)			(92.7)					
<b>Equity value, 30-Sep-20</b>			<b>1,883.9</b>					

Notes:

- (1) Midyear discounting was applied to FCFF.
- (2) Numbers may not add up due to rounding differences.



# Appendix 4: PWSI - Management case

PHP in millions	2019	2020	2021	2022	2023	2024	2025	Terminal value
Revenue	1,449.4	1,204.9	1,553.7	1,988.5	2,373.7	2,848.5	3,418.2	50,295.8
Cost of sales	(1,219.2)	(933.7)	(1,213.8)	(1,578.0)	(1,893.6)	(2,272.3)	(2,726.7)	(40,121.8)
<b>Gross profit</b>	<b>230.2</b>	<b>271.2</b>	<b>339.8</b>	<b>410.5</b>	<b>480.2</b>	<b>576.2</b>	<b>691.4</b>	<b>10,174.0</b>
Operating expenses, before depreciation	(146.0)	(123.7)	(147.2)	(174.6)	(207.2)	(246.5)	(294.0)	(4,326.3)
<b>EBITDA</b>	<b>84.2</b>	<b>147.5</b>	<b>192.6</b>	<b>236.0</b>	<b>273.0</b>	<b>329.7</b>	<b>397.4</b>	<b>5,847.8</b>
Depreciation	(3.0)	(6.1)	(5.3)	(4.1)	(3.1)	(3.1)	(3.8)	(55.5)
Interest expense	(21.2)	(6.1)	(6.1)	(4.2)	(1.2)	-	-	-
<b>EBT</b>	<b>60.0</b>	<b>135.3</b>	<b>181.2</b>	<b>227.6</b>	<b>268.7</b>	<b>326.6</b>	<b>393.6</b>	<b>5,792.2</b>
Income tax expense	(21.4)	(40.6)	(54.4)	(68.3)	(80.6)	(98.0)	(118.1)	(1,737.7)
<b>Net income / (loss)</b>	<b>38.6</b>	<b>94.7</b>	<b>126.8</b>	<b>159.3</b>	<b>188.1</b>	<b>228.6</b>	<b>275.6</b>	<b>4,054.6</b>
<b>FCFF</b>								
Net income		94.7	126.8	159.3	188.1	228.6	275.6	4,054.6
Interest expense		4.3	4.3	3.0	0.8	-	-	-
Depreciation		6.1	5.3	4.1	3.1	3.1	3.8	55.5
Change in NWC		10.1	427.0	(14.6)	(97.8)	(110.7)	(135.7)	-
Replacement capex		(14.8)	(0.2)	(0.2)	(0.2)	(0.2)	(18.1)	-
<b>FCFF, undiscounted</b>		<b>100.4</b>	<b>563.2</b>	<b>151.6</b>	<b>94.1</b>	<b>120.8</b>	<b>125.5</b>	<b>4,110.1</b>
Maintenance capex		-	-	-	-	-	-	(55.5)
Change in NWC (stable)		-	-	-	-	-	-	(367.7)
<b>FCFF, undiscounted</b>		<b>100.4</b>	<b>563.2</b>	<b>151.6</b>	<b>94.1</b>	<b>120.8</b>	<b>125.5</b>	<b>3,686.8</b>
Partial period			0.2541	1.0000	1.0000	1.0000	1.0000	1.0000
PV factor			0.9880	0.9306	0.8460	0.7691	0.6992	0.6356
<b>FCFF, discounted</b>			<b>25.2</b>	<b>524.1</b>	<b>128.3</b>	<b>72.3</b>	<b>84.5</b>	<b>79.8</b>
<b>Sum of PV of FCFF</b>			<b>3,257.8</b>					
Non-operating assets & liabilities			145.9					
<b>Enterprise value, 30-Sep-20</b>			<b>3,403.6</b>					
Net cash / (debt)			(92.7)					
<b>Equity value, 30-Sep-20</b>			<b>3,311.0</b>					

Notes:

- (1) Midyear discounting was applied to FCFF.
- (2) Numbers may not add up due to rounding differences.

# Thank you

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**C O V E R S H E E T**For  
**AUDITED FINANCIAL STATEMENTS**

SEC Registration Number

A	1	9	9	8	1	3	7	5	4		
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**COMPANY NAME**

C	O	S	C	O		C	A	P	I	T	A	L	,		I	N	C	.		A	N	D																			
S	U	B	S	I	D	I	A	R	I	E	S																														

**PRINCIPAL OFFICE ( No. / Street / Barangay / City / Town / Province)**

9	0	0		R	o	m	u	a	l	d	e	z		S	t	r	e	e	t																												
P	a	c	o	,		M	a	n	i	l	a																																				

Form Type

A A F S

Department requiring the report

Secondary License Type, If Applicable

**COMPANY INFORMATION**

Company's email Address

www.coscocapital.com

Company's Telephone Number/s

(02) 548-7110

Mobile Number

No. of Stockholders

Annual Meeting (Month / Day)

March 31

Fiscal Year (Month / Day)

December 31

**CONTACT PERSON INFORMATION**The designated contact person *MUST* be an Officer of the Corporation

Name of Contact Person

Teodoro A. Polinga

Email Address

tedpolinga@coscocapital.com.ph

Telephone Number/s

(02) 548-7110

Mobile Number

**CONTACT PERSON'S ADDRESS**

900 Romualdez, Street, Paco, Manila

*Note 1: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.*

*Note 2: All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.*

# COSCO CAPITAL, INC. AND SUBSIDIARIES

**CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2020, 2019 and 2018**

With Independent Auditors' Report

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR FINANCIAL STATEMENTS**

The management of **COSCO CAPITAL, INC. AND SUBSIDIARIES** (the "Group"),- is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended **December 31, 2020 and 2019**, in accordance with the prescribed financial reporting framework indicated therein, 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.

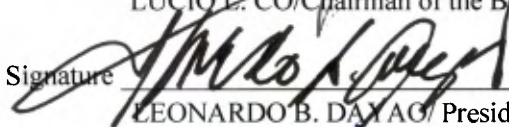
In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern and using the going concern basis of accounting unless management intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Group's financial reporting process.

The Board of Directors reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders.

**R.G. Manabat and Co.**, the independent auditor appointed by the stockholders, has audited the financial statements of the Group in accordance with Philippine Standards on Auditing, and its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

Signature   
LUCIO L. CO/Chairman of the Board

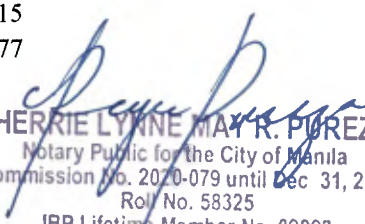
Signature   
LEONARDO B. DAYAO/ President

Signature   
TEODORO A. POLINGA/ Chief Finance Officer

SUBSCRIBED AND SWORN to before me this 19 day of APR 19 2021 2021 affiants exhibiting to me their respective Tax Identification Number, as follows:

<u>Name</u>	<u>TIN</u>
LUCIO L. CO	108-975-971
LEONARDO B. DAYAO	135-546-815
TEODORO A. POLINGA	104-883-077

Doc. No. 435 ;  
Page No. 87 ;  
Book No. 27 ;  
Series of 2021

  
**CHERIE LYNNE MAY R. POREZA**  
Notary Public for the City of Manila  
Commission No. 2070-079 until Dec 31, 2021  
Rol. No. 58325  
IBP Lifetime Member No. 09093  
PTR No. 9824725 / 01-05-2021 / Mla.  
MCLE Compliance No. VI-0022488 / 04-16-19  
No. 900 Romualdez St., Paco, Manila

Signed this 19 day of APR 19 2021, 2021



R.G. Manabat & Co.  
The KPMG Center, 9/F  
6787 Ayala Avenue, Makati City  
Philippines 1226  
Telephone +63 (2) 8885 7000  
Fax +63 (2) 8894 1985  
Internet [www.home.kpmg/ph](http://www.home.kpmg/ph)  
Email [ph-inquiry@kpmg.com](mailto:ph-inquiry@kpmg.com)

## REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders  
**Cosco Capital, Inc. and Subsidiaries**  
900 Romualdez Street  
Paco, Manila

### *Opinion*

We have audited the consolidated financial statements of Cosco Capital, Inc. and its Subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2020 and 2019, and consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2020, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2020, in accordance with Philippine Financial Reporting Standards (PFRSs).

### *Basis for Opinion*

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group 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 audit of the consolidated 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.

Firm Regulatory Registration & Accreditation:  
PRC-BOA Registration No. 0003, valid until November 21, 2023  
SEC Accreditation No. 0003-SEC, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by SEC Accreditation No. 0004-FR-5)  
IC Accreditation No. 0003-IC, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by IC Circular Letter (CL) No. 2019-39, Transition clause)  
BSP Accreditation No. 0003-BSP, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by BSP Monetary Board Resolution No. 2161, Transition clause)





## *Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

*Valuation of Goodwill and Other Intangibles with Indefinite Lives*  
Refer to Note 13 to the consolidated financial statements.

### *The risk*

The Group acquired through business combinations goodwill and other intangibles with indefinite lives totaling P20.9 billion. The Group tests for impairment annually by comparing the recoverable amounts to the carrying amounts.

We considered this as a key audit matter because assessment process is complex, involves significant management judgements and is based on key assumptions on expected future market and economic conditions, revenue growth, margin developments, the discount rates and (terminal) growth rates from management.

### *Our response*

We performed the following audit procedures, among others, around impairment testing of goodwill and other intangibles with indefinite lives:

- We obtained the Group's discounted cash flow model that tests the carrying value of goodwill.
- We evaluated the reasonableness of key assumptions used by management in deriving the recoverable amount. These procedures included using our own internal valuation specialist to evaluate the key inputs and assumptions for growth and discount rates.
- We reviewed the cash flows used, with comparison to recent performance, trend analysis and market expectations, and by reference to prior year's forecast, where relevant, and assessing whether the Group has achieved them.
- We evaluated the adequacy of the disclosures in respect of impairment of goodwill and other intangibles with indefinite lives in the consolidated financial statements.

*Revenue Recognition (P180.5 billion)*

Refer to Notes 3 and 19 to the consolidated financial statements.

### *The risk*

Revenue is not complex but it is an important measure to evaluate the Group's performance, which increases the risk of material misstatement that revenue may be inappropriately recognized.



*Our response*

We performed the following audit procedures, among others, on revenue recognition:

- We evaluated and assessed the revenue recognition policies of the Group in accordance with PFRS 15, *Revenue from Contracts with Customers* and PFRS 16, *Leases*.
- We evaluated and assessed the design and operating effectiveness of the key controls over the revenue process.
- We involved our information technology specialists to assist in the audit of automated controls, including interface controls among different information technology applications for the evaluation of the design and operating effectiveness of controls over the recording of revenue transactions.
- For grocery retail, specialty retail and liquor distribution segments, we tested, on a sample basis, sales transactions for a selected period before and after year-end to supporting documentation such as generated sales summary reports from the point-of-sale (POS) system, as reconciled with the cash receipts, to assess whether these transactions are recorded in the correct reporting period.
- We vouched, on a sample basis, sales transactions to supporting documentation such as sales invoices, delivery documents and value-added-tax returns, as applicable, to ascertain that the revenue recognition criteria are met.
- We tested, on a sample basis, journal entries posted to revenue accounts to identify unusual or irregular items.

*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 and Annual Report for the year ended December 31, 2020, but does not include the consolidated financial statements and our auditors' report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2020 are expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated.



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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

## *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 PSAs 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, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 audit 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 Group'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.



- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is Dindo Marco M. Dioso.

**R.G. MANABAT & CO.**

DINDO MARCO M. DIOSO

Partner

CPA License No. 0095177

SEC Accreditation No. 95177-SEC, Group A, valid for five (5) years  
covering the audit of 2019 to 2023 financial statements

Tax Identification No. 912-365-765

BIR Accreditation No. 08-001987-030-2019

Issued August 7, 2019; valid until August 6, 2022

PTR No. MKT 8533899

Issued January 4, 2021 at Makati City

May 5, 2021

Makati City, Metro Manila

**COSCO CAPITAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
(Amounts in Thousands)

		December 31	
	Note	2020	2019
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	4	P48,867,746	P24,402,014
Receivables - net	5	10,308,181	16,637,892
Inventories	6, 20	24,914,272	24,722,271
Financial assets at fair value through profit or loss	7	2,411,375	34,921
Financial assets at fair value through other comprehensive income	8	8,365	9,209
Due from related parties	25	184,852	192,068
Prepaid expenses and other current assets	9	1,450,993	2,000,500
<b>Total Current Assets</b>		<b>88,145,784</b>	<b>67,998,875</b>
<b>Noncurrent Assets</b>			
Investments in associates and joint ventures	10	729,910	741,175
Right of use of assets - net	21	24,270,253	21,700,103
Property and equipment - net	11	28,683,979	27,927,953
Investment properties - net	12	11,145,393	11,125,998
Goodwill and other intangibles - net	13	21,074,975	21,089,717
Deferred tax assets - net	27	902,719	566,284
Deferred oil and mineral exploration costs - net	14	-	-
Other noncurrent assets	15	3,236,811	3,299,789
<b>Total Noncurrent Assets</b>		<b>90,044,040</b>	<b>86,451,019</b>
		<b>P178,189,824</b>	<b>P154,449,894</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued expenses	16	P16,667,022	P15,127,981
Income tax payable		1,534,051	1,164,727
Lease liabilities due within one year	21, 25	1,035,180	567,682
Short-term loans	17	42,000	871,124
Current maturities of long-term loans due within one year	17	3,766,957	43,685
Due to related parties	25	762,031	1,343,460
Other current liabilities	18	662,449	596,992
<b>Total Current Liabilities</b>		<b>24,469,690</b>	<b>19,715,651</b>

Forward

		December 31	
	Note	2020	2019
<b>Noncurrent Liabilities</b>			
Long-term loans	17	P12,802,743	P5,094,577
Lease liabilities	21, 25	29,149,190	26,101,259
Retirement benefits liability	26	1,431,760	955,818
Deferred tax liabilities - net	27	144,588	128,586
Other noncurrent liabilities	21	412,525	393,219
<b>Total Noncurrent Liabilities</b>		<b>43,940,806</b>	<b>32,673,459</b>
<b>Total Liabilities</b>		<b>68,410,496</b>	<b>52,389,110</b>
<b>Equity</b>			
Capital stock	28	7,405,264	7,405,264
Additional paid-in capital	28	9,634,644	9,634,644
Treasury stock	28	(1,652,861)	(1,403,974)
Retirement benefits reserve	26	(82,145)	5,412
Other reserve	8	4,758	5,602
Retained earnings		58,915,686	54,167,212
<b>Total Equity Attributable to Equity Holders of the Parent Company</b>		<b>74,225,346</b>	<b>69,814,160</b>
<b>Noncontrolling Interests</b>	28	<b>35,553,982</b>	<b>32,246,624</b>
<b>Total Equity</b>		<b>109,779,328</b>	<b>102,060,784</b>
		<b>P178,189,824</b>	<b>P154,449,894</b>

*See Notes to the Consolidated Financial Statements.*



**COSCO CAPITAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(Amounts in Thousands except Per Share Data)

		Years Ended December 31		
	Note	2020	2019	2018
<b>REVENUES</b>				
Net sales	19, 29	P176,250,557	P164,568,286	P166,830,469
Rent		1,065,742	1,498,426	1,379,888
		<b>177,316,299</b>	<b>166,066,712</b>	<b>168,210,357</b>
<b>COST OF REVENUES</b>				
Cost of goods sold	20	144,410,198	135,516,879	139,182,012
Cost of rent		610,939	660,788	627,607
		<b>145,021,137</b>	<b>136,177,667</b>	<b>139,809,619</b>
<b>GROSS INCOME</b>		<b>32,295,162</b>	<b>29,889,045</b>	<b>28,400,738</b>
<b>OTHER REVENUE</b>	19, 22	<b>3,157,850</b>	<b>3,262,853</b>	<b>2,994,765</b>
<b>TOTAL GROSS INCOME AND OTHER REVENUE</b>		<b>35,453,012</b>	<b>33,151,898</b>	<b>31,395,503</b>
<b>OPERATING EXPENSES</b>	23	<b>20,147,712</b>	<b>19,147,089</b>	<b>18,326,809</b>
<b>INCOME FROM OPERATIONS</b>		<b>15,305,300</b>	<b>14,004,809</b>	<b>13,068,694</b>
<b>OTHER INCOME (CHARGES)</b>				
Interest expense	17, 21	(2,198,570)	(2,076,648)	(1,922,956)
Interest income	4, 25	696,110	837,882	200,434
Others - net	24	30,693	6,148,629	421,494
		<b>(1,471,767)</b>	<b>4,909,863</b>	<b>(1,301,028)</b>
<b>INCOME BEFORE INCOME TAX</b>		<b>13,833,533</b>	<b>18,914,672</b>	<b>11,767,666</b>
<b>PROVISION FOR INCOME TAXES</b>	27	<b>3,824,607</b>	<b>3,521,465</b>	<b>3,285,862</b>
<b>NET INCOME</b>		<b>P10,008,926</b>	<b>P15,393,207</b>	<b>P8,481,804</b>
<b>Net income attributable to:</b>				
Equity holders of the Parent Company		<b>P5,900,195</b>	<b>P11,597,381</b>	<b>P5,381,485</b>
Noncontrolling interests	28	<b>4,108,731</b>	<b>3,795,826</b>	<b>3,100,319</b>
		<b>P10,008,926</b>	<b>P15,393,207</b>	<b>P8,481,804</b>
<b>Basic/diluted earnings per share attributable to equity holders of the Parent Company</b>				
	30	<b>P0.84</b>	<b>P1.65</b>	<b>P0.76</b>

See Notes to the Consolidated Financial Statements.

**COSCO CAPITAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(Amounts in Thousands except Per Share Data)

		Years Ended December 31		
	Note	2020	2019	2018
<b>NET INCOME</b>		<b>P10,008,926</b>	<b>P15,393,207</b>	<b>P8,481,804</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
<b>Items that will never be reclassified subsequently to profit or loss</b>				
Remeasurement gain (loss) on retirement benefits		(250,368)	(316,310)	231,525
Unrealized gain (loss) on financial assets	8	(844)	2,182	(1,592)
Income tax effect		74,806	96,421	(69,081)
		(176,406)	(217,707)	160,852
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>P9,832,520</b>	<b>P15,175,500</b>	<b>P8,642,656</b>
<b>Total comprehensive income attributable to:</b>				
Equity holders of the Parent Company		5,811,794	P11,419,798	P5,465,351
Non-controlling interests	28	4,020,726	3,755,702	3,177,305
		<b>P9,832,520</b>	<b>P15,175,500</b>	<b>P8,642,656</b>

*See Notes to the Consolidated Financial Statements.*

**COSCO CAPITAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
(Amounts in Thousands Except per Share Data)

	Attributable to Equity Holders of the Parent Company						Total	Non-controlling Interests	Total Equity
	Capital Stock	Additional Paid-in Capital	Treasury Shares	Retirement Benefits Reserve	Other Reserve	Retained Earnings			
Balance at December 31, 2017	P7,405,264	P9,634,644	(P628,203)	P28,365	P5,012	P37,394,017	P53,839,099	P23,212,338	P77,051,437
<b>Total comprehensive income for the year</b>									
Net income for the year	-	-	-	85,457	(1,592)	5,381,485	5,381,485	3,100,319	8,481,804
Other comprehensive income (loss)	-	-	-	85,457	(1,592)	-	83,865	76,987	160,852
Acquisition of treasury shares	-	-	(569,524)	-	-	5,381,485	(569,524)	-	(569,524)
Balance at December 31, 2018	7,405,264	9,634,644	(1,197,727)	113,822	3,420	42,775,502	58,734,925	26,389,644	85,124,569
<b>Total comprehensive income for the year</b>									
Net income for the year	-	-	-	-	-	11,597,381	11,597,381	3,795,826	15,393,207
Other comprehensive income (loss)	-	-	-	(108,410)	2,182	-	(106,228)	(111,479)	(217,707)
Issuance of shares by a subsidiary	-	-	-	(108,410)	2,182	11,597,381	11,491,153	3,684,347	15,175,500
Gain on dilution of ownership interest	-	-	-	-	-	1,313,808	1,313,808	-	1,313,808
Increase in noncontrolling interests	-	-	-	-	-	-	-	3,321,772	3,321,772
Acquisition of treasury shares	-	-	(206,247)	-	-	-	(206,247)	-	(206,247)
Cash dividends	-	-	-	-	-	(1,519,479)	(1,519,479)	(1,149,139)	(2,668,618)
Balance at December 31, 2019	7,405,264	9,634,644	(1,403,974)	5,412	5,602	54,167,212	69,814,160	32,246,624	102,060,784
<b>Total comprehensive income for the year</b>									
Net income for the year	-	-	-	-	-	5,900,195	5,900,195	4,108,731	10,008,926
Other comprehensive loss	-	-	-	(87,557)	(844)	-	(88,401)	(88,005)	(176,406)
Acquisition of treasury shares	-	-	(248,887)	(87,557)	(844)	5,900,195	(248,887)	4,020,726	9,832,520
Cash dividends	-	-	-	-	-	(1,151,721)	(1,151,721)	(713,368)	(1,865,089)
Balance at December 31, 2020	P7,405,264	P9,634,644	(P1,652,861)	(P82,145)	P4,758	P58,915,686	P74,225,346	P35,553,982	P109,779,328

See Notes to the Consolidated Financial Statements.

**COSCO CAPITAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Amounts in Thousands)

		<b>Years Ended December 31</b>		
	<i>Note</i>	<b>2020</b>	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Income before income tax		<b>P13,833,533</b>	P18,914,672	P11,767,666
Adjustments for:				
Depreciation and amortization	11, 12, 13, 21	<b>4,195,584</b>	3,423,159	3,537,746
Interest expense	17, 21	<b>2,198,570</b>	2,076,648	1,922,956
Interest income	4, 25	<b>(696,110)</b>	(837,882)	(200,434)
Retirement benefits cost	26	<b>235,531</b>	136,099	171,120
Impairment loss on property and equipment	11	<b>160,037</b>	-	-
Impairment loss on receivables	5	<b>64,689</b>	8,649	12,798
Gain from sale of financial assets through profit or loss	7, 24	<b>(36,230)</b>	-	-
Gain from pre-terminated lease contracts	21, 24	<b>(29,811)</b>	(42,460)	(37,850)
Unrealized foreign exchange loss (gain)		<b>19,482</b>	(28,805)	(24,200)
Share in losses (income) of joint ventures and associate	10, 24	<b>15,313</b>	(11,044)	(17,142)
Unrealized loss on financial assets at FVPL	7, 24	<b>7,407</b>	1,582	10,385
Gain on disposal of property and equipment	11, 24	<b>(739)</b>	-	(15,815)
Dividend income	25	<b>(652)</b>	(652)	(680)
Gain on insurance claims	24	<b>(513)</b>	(3,503)	(3,383)
Gain on sale of subsidiary/joint venture	10, 33	-	(6,073,605)	(362,810)
Impairment loss on deferred oil and mineral exploration costs	14, 23	-	128,090	-
Operating income before changes in working capital		<b>19,966,091</b>	17,690,948	16,760,357
Decrease (increase) in:				
Receivables		<b>129,711</b>	1,883,294	268,339
Inventories		<b>(192,002)</b>	(790,614)	(3,264,295)
Prepaid expenses and other current assets		<b>369,275</b>	608,230	(297,664)
Due from related parties		<b>7,216</b>	(144,097)	(23,398)
Increase (decrease) in:				
Accounts payable and accrued expenses		<b>2,344,714</b>	1,362,540	2,077,246
Due to related parties		<b>(581,429)</b>	(22,403)	578,828
Other current liabilities		<b>65,457</b>	162,091	(70,506)
Other noncurrent liabilities		<b>19,013</b>	(40,123)	(705,043)
Cash generated from operations		<b>22,128,046</b>	20,709,866	15,323,864
Income taxes paid	27	<b>(3,714,508)</b>	(3,566,714)	(3,137,784)
Interest received	4	<b>459,065</b>	485,892	200,434
Retirement benefits paid	26	<b>(8,839)</b>	(4,085)	(1,675)
Net cash provided by operating activities		<b>18,863,764</b>	17,624,959	12,384,839

Forward

		Years Ended December 31		
	Note	2020	2019	2018
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Collections of loans receivable	25	P6,200,000	P -	P -
Additions to:				
Financial assets at fair value through profit or loss		(7,883,862)	(126,956)	(32,500)
Property and equipment	11	(3,448,850)	(3,885,582)	(4,073,824)
Investment properties	12	(137,454)	(617,518)	(657,388)
Intangibles	13	(28,678)	(40,801)	(41,705)
Deferred mineral and oil exploration		-	(4,725)	(417)
Proceeds from:				
Sale of financial assets through profit or loss	7	5,536,230	-	-
Disposal of property and equipment		2,301	129,910	72,392
Insurance claims	24	513	3,503	3,383
Sale of interest in a subsidiary/joint venture	33	-	11,370,980	600,000
Increase in other noncurrent assets		(947,330)	(312,577)	(267,306)
Interest received from loans receivable		237,045	351,990	-
Dividends received	25	652	652	676
Loans receivable granted during the year	25	-	(11,898,908)	-
Cash given up in assets held for sale	33	-	-	(1,063,131)
Net cash used in investing activities		(469,433)	(5,030,032)	(5,459,820)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Availment of:				
Long-term loans	17	12,000,000	-	-
Interest expense		(432,992)	(398,529)	(458,398)
Short-term loans	17	-	642,855	10,220,000
Repayments of lease:				
Principal amount		(704,849)	(567,555)	(528,829)
Interest expense		(1,758,234)	(1,673,636)	(1,454,112)
Cash dividends paid		(1,356,031)	(1,312,587)	(1,200,393)
Payments of:				
Short-term loans	17	(829,124)	(4,638,031)	(10,916,200)
Long-term loans	17	(450,000)	(1,488,429)	(610,000)
Debt issuance cost		(129,000)	-	-
Buyback of capital stocks	28	(248,887)	(206,247)	(569,524)
Proceeds from top-up placements	1	-	4,635,580	-
Net cash provided by (used in) financing activities		6,090,883	(5,006,579)	(5,517,456)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>		(19,482)	28,805	24,200
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		24,465,732	7,617,153	1,431,763
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		24,402,014	16,784,861	15,353,098
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	4	P48,867,746	P24,402,014	P16,784,861

See Notes to the Consolidated Financial Statements.

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**COSCO CAPITAL, INC. AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**1. Reporting Entity**

Cosco Capital, Inc. (the "Parent Company" or "Cosco"), formerly Alcorn Gold Resources Corporation, was incorporated and registered with the Philippine Securities and Exchange Commission ("SEC") on January 19, 1988. Its shares of stock are publicly traded in the Philippine Stock Exchange ("PSE") since September 26, 1988. As at December 31, 2020 and 2019, the Parent Company's public float stood at 22.99% and 23.74%.

On October 8, 1999, the Parent Company's shareholders approved the amendment of its primary purpose from an oil and mineral exploration and development corporation into a holding company so that it may pursue other businesses as opportunity comes. The original primary purpose is now included as one of the secondary purposes of the Parent Company. On January 13, 2000, the SEC approved the amendments of the Parent Company's Articles of Incorporation. As a holding company, Cosco may engage in any business that may add to its shareholders' worth.

On December 10, 2012, in a special meeting, the Board of Directors ("Board" or "BOD") of the Parent Company approved the subscription of the "Lucio L. Co Group" to the unissued authorized capital stock of the Parent Company from the proposed increase in the authorized capital stock of the Parent Company at a subscription price of P15 per share for a total of 4,987,560,379 new shares at an aggregate subscription price of P74.8 billion worth of shares in Puregold Price Club, Inc. ("PPCI"), Ellimac Prime Holdings, Inc., Go Fay & Co., Incorporada, SVF Corporation, Nation Realty, Inc., Patagonia Holdings Corp., Fertuna Holdings Corp., Premier Wine and Spirits, Inc., Montosco, Inc., Meritus Prime Distributions, Inc., and Pure Petroleum Corp., and the corresponding payment thereof by way of assignment of the shares owned by the Lucio L. Co Group in these companies, under the terms and conditions to be determined by the Parent Company's BOD.

On December 11, 2012, in a special meeting, the Parent Company's shareholders approved the increase in the Parent Company's authorized capital stock and increase in par value from P3 billion divided into 300 billion common shares with a par value of P0.01 per share to P10 billion divided into 10 billion common shares with a par value of P1 per share. Also, the Parent Company's shareholders resolved to change the Parent Company's corporate name from Alcorn Gold Resources Corporation to Cosco Capital, Inc. and to reorganize and spin-off its oil and mineral assets and operations into a wholly-owned subsidiary.

On April 22, 2013, the SEC approved the restructuring of the Parent Company's authorized capital stock as well as the change of its corporate name. Further, the SEC confirmed the final number of subscribed shares of 4,987,406,421 at an aggregate revised subscription price of P74.8 billion which will be paid through assignment of shares (share swap). The transaction is exempt from the registration requirements of the Securities Regulation Code of the Philippines.



On May 31, 2013, pursuant to the SEC-approved increase of capital stock and share swap transaction, the Parent Company implemented the following: (a) issuance and listing of 4,987,406,421 new shares of the Parent Company; (b) cross trade at the PSE of PPCI shares to the Parent Company as consideration for the issuance of the new shares; (c) issuance to the subscribers, the Lucio L. Co Group, pursuant to the share swap; and (d) special block sale at the PSE of 1,600,000,000 of the new shares placed to Qualified Institutional Buyers transacted at PSE at P10.50 per share.

As a result of the above transaction, the companies mentioned above became subsidiaries of Cosco. The transaction was accounted for using the pooling of interest method. Accordingly, the Parent Company recognized the net assets of the acquired subsidiaries equivalent to their carrying values.

The Parent Company's principal office, which is also its registered office address, is at 900 Romualdez Street, Paco, Manila.

The consolidated financial statements include the accounts of the Parent Company and the following subsidiaries (collectively referred to as "the Group") which are all incorporated in the Philippines:

	Effective Percentage of Ownership			
	2020		2019	
	Direct	Indirect	Direct	Indirect
<b>Retail</b>				
Puregold Price Club, Inc. (PPCI) and Subsidiaries	49.16 <sup>(a)</sup>	-	49.16 <sup>(a)</sup>	-
▪ Kareila Management Corporation (KMC) and Subsidiaries	-	49.16 <sup>(a)</sup>	-	49.16 <sup>(a)</sup>
o S&R Pizza (Harbor Point), Inc.	-	49.16 <sup>(a)</sup>	-	49.16 <sup>(a)</sup>
o S&R Pizza, Inc.	-	49.16 <sup>(a)</sup>	-	49.16 <sup>(a)</sup>
▪ PPCI Subic, Inc. (PSI)	-	49.16 <sup>(a)</sup>	-	49.16 <sup>(a)</sup>
▪ Entenso Equities Incorporated (EEI)	-	49.16 <sup>(a)</sup>	-	49.16 <sup>(a)</sup>
▪ Purepadala, Inc.	-	49.16 <sup>(a)</sup>	-	49.16 <sup>(a)</sup>
<b>Liquor Distribution</b>				
Montosco, Inc.	100	-	100	-
Meritus Prime Distributions, Inc.	100	-	100	-
Premier Wine and Spirits, Inc.	100	-	100	-
<b>Real Estate and Property Leasing</b>				
Nation Realty, Inc.	100	-	100	-
Patagonia Holdings Corp.	100	-	100	-
Ellimac Prime Holdings, Inc. (EPHI)	100	-	100	-
Fertuna Holdings Corp.	100	-	100	-
Pure Petroleum Corp.	100	-	100	-
NE Pacific Shopping Centers Corporation (NPSCC)	100	-	100	-
<b>Specialty Retail</b>				
Office Warehouse, Inc. and a Subsidiary	100	-	100	-
o Office Warehouse (Harbor Point), Inc.	-	100	-	100
Canaria Holdings Corporation (CHC) and Subsidiaries <sup>(b)</sup>	90	-	90	-
<b>Oil and Mining</b>				
Alcorn Petroleum and Minerals Corporation (APMC)	100	-	100	-

<sup>(a)</sup> On January 16, 2019, PPCI made a Php4,693,500,000 top-up placement of 104.3 million common shares at a price of Php45.00 per share. The additional shares were issued on March 5, 2019 for total proceeds of P4.6 billion, which resulted in a dilution of the Parent Company's ownership interest of in PPCI from 51.02% to 49.16%. The Parent Company retains the control over PPCI (see Note 2).

<sup>(b)</sup> On October 19, 2018, the Board of Directors authorized the sale of LPC and CPHI, resulting in their classification as a disposal group held-for-sale as at December 31, 2018 and disposal on January 17, 2019 (see Note 33).

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## 2. Basis of Preparation

The consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). PFRS which are issued by the Philippine Financial Reporting Standards Council (FRSC), consist of PFRS, Philippine Accounting Standards (PAS), and Philippine Interpretations.

The accompanying consolidated financial statements were approved and authorized for issuance by the Board of Directors (BOD) on April 6, 2021.

Historical cost is used as the measurement basis except for:

Items	Measurement Bases
Financial assets at FVPL	Fair value
Financial assets at FVOCI (except for unquoted equity investments which are measured at cost)	Fair value
Retirement benefits liability	Present value of the defined benefit obligation less fair value of plan assets

These consolidated financial statements are presented in Philippine peso (P), unless otherwise stated.

### Functional and Presentation Currency

The consolidated financial statements are presented in Philippine peso, which is also the Parent Company's functional currency. All financial information expressed in Philippine peso has been rounded off to the nearest peso, unless otherwise stated.

### Significant Judgments, Estimates and Assumptions

The preparation of consolidated financial statements requires management to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities which, by definition, will seldom equal the actual results. All assumptions, expectations and forecasts used as a basis for certain estimates within these financial statements represent good faith assessments of the Group's current and future performance for which management believes there is a reasonable basis. They involve risks, uncertainties and other factors that could cause the Group's actual future results, performance and achievements to differ materially from those forecasted.

### Judgments

In the process of applying the Group's 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 consolidated financial statements:

#### *Determining Control over Investee with Less Than 50% of Voting Rights*

The Parent Company has determined that it has control over PPCI even though it has less than 50% of voting rights because of the dominance of its position in relation to the size and dispersion of the other vote holdings. As a result, the Parent Company has the power or ability to control the relevant activities of PPCI.

*Determining the Term and Discount Rate of Lease Arrangements (Note 21)*

Where the Group is the lessee, management is required to make judgments about whether an arrangement contains a lease, the lease term and the appropriate discount rate to calculate the present value of the lease payments.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases entered into by the Group as lessee, management uses the incremental borrowing rate, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group uses an approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group and makes adjustments specific to the lease.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if it is reasonably certain that the lease will be extended (or not terminated) and, as such, included within lease liabilities.

For leases of buildings, stores, distribution centers and warehouses, the following factors are usually the most relevant:

- If any leasehold improvements are expected to have a significant remaining value, the Group is typically reasonably certain to extend (or not terminate).
- If there are significant penalties to terminate (or not extend), the Group is typically reasonably certain to extend (or not terminate).
- Otherwise, the Group considers other factors, including historical lease durations, the costs and business disruption required to replace the leased asset, enforceability of the option, and business and other developments.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and is within the lessee's control, for example, when significant investment in the store is made which has a useful life beyond the current lease term

*Operating Leases - Group as a Lessor (Note 21)*

The Group has entered into various lease agreements as a lessor to lease its investment properties and sublease portion of its stores to various lessees. The Group has determined that it retains all significant risks and rewards of ownership of these properties which are leased out under operating lease arrangements.

Rent income recognized in profit or loss amounted to P1.2 billion, P1.5 billion and P1.4 billion in 2020, 2019 and 2018, respectively.

## Estimates

The key estimates and assumptions used in the consolidated financial statements are based on management's evaluation of relevant facts and circumstances as at the reporting date. Actual results could differ from such estimates.

### *Estimating Allowance for Impairment Losses on Receivables (Note 5)*

The Group maintains an allowance for impairment losses on receivables at a level considered adequate to provide for uncollectible receivables. The level of this allowance is evaluated by the Group on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, the length of the Group's relationship with debtors, their payment behavior and known market factors. The Group reviews the age and status of the receivable and identifies accounts that are to be provided with allowance on a regular basis. The amount and timing of recorded expenses for any period would differ if the Group made different judgment or utilized different estimates. An increase in the Group's allowance for impairment losses on receivables would increase the Group's recorded operating expenses and decrease current assets.

As at December 31, 2020 and 2019, the carrying amount of receivables amounted to P10.3 billion and P16.6 billion while the allowance for impairment losses amounted to P113.6 million and P48.9 million, respectively.

### *Estimating Net Realizable Value (NRV) of Merchandise Inventories (Note 6)*

The Group carries merchandise inventory at NRV whenever the selling price less costs to sell becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes. The estimate of the NRV is reviewed regularly.

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

The carrying amount of merchandise inventories amounted to P24.9 billion and P24.7 billion as at December 31, 2020 and 2019.

### *Impairment of Goodwill and Other Intangibles with Indefinite Lives (Note 13)*

The Group determines whether goodwill, and other intangibles with indefinite are impaired at least annually. This requires the estimation of their recoverable amounts. Estimating recoverable amounts requires management to make an estimate of the expected future cash flows from the cash-generating unit to which they relate and to choose a suitable discount rate to calculate the present value of those cash flows.

The carrying amounts of goodwill and other intangibles with indefinite useful lives totaled P20.9 billion as at December 31, 2020 and 2019.

### *Impairment of Other Non-Financial Assets*

The Group assesses impairment on other non-financial assets when events or changes in circumstances indicate that the carrying amount may not be recoverable.

The factors that the Group considers important which could trigger an impairment review include the following:

- significant underperformance relative to the expected historical or projected future operating results;

- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

Determining the net recoverable amount of assets requires the estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets. While it is believed that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable amount and any resulting impairment loss could have a material adverse impact on the results of operations.

The impairment indicators affecting the Group's wells/platform under property and equipment and deferred oil and mineral exploration costs are lack of significant progress and final plug/abandonment of production wells as at December 31, 2020 and 2019. These resulted in impairment losses on property and equipment of P160 million in 2020 and deferred oil and mineral exploration costs of P128.1 million in 2019 (see Notes 11 and 14).

As at December 31, 2020 and 2019, the following are the carrying amounts of nonfinancial assets:

	<i>Note</i>	<b>2020</b>	2019
Property and equipment - net	<i>11</i>	<b>P28,683,979</b>	P27,927,953
Right-of-use assets - net	<i>21</i>	<b>24,270,253</b>	21,700,103
Investment properties - net	<i>12</i>	<b>11,145,393</b>	11,125,998
Investments in associates and joint ventures	<i>10</i>	<b>729,910</b>	741,175
Computer software and licenses, and leasehold rights	<i>13</i>	<b>222,335</b>	237,077

*Estimating Realizability of Deferred Tax Assets (Note 27)*

The Group reviews the carrying amount of deferred tax assets at each reporting date and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The Group also reviews the expected timing and tax rates upon reversal of the temporary differences and adjusts the impact of deferred tax accordingly. The Group's assessment on the recognition of deferred tax assets is based on the forecasted taxable income of the subsequent reporting periods. This forecast is based on the Group's past results and future expectations on revenues and expenses.

As at December 31, 2020 and 2019, the Group recognized net deferred tax assets amounting to P758.1 million and P437.7 million, respectively.

*Estimating Retirement Benefits Liability (Note 26)*

The present value of the retirement benefits liability depends on a number of assumptions that are determined on an actuarial basis. The assumptions used in determining the net cost (income) for retirement benefits include the discount rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement benefits liability. Other key assumptions include future salary, mortality and attrition. Additional information is disclosed in Note 26.

Retirement benefits liability amounted to P1.4 billion and P955.8 million as at December 31, 2020 and 2019.

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### 3. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements, except for the changes in accounting policies as explained below.

#### Adoption of Amendments to Standards and Frameworks

The Group adopted the following relevant amendments to standards and frameworks starting January 1, 2020 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption did not have any significant impact on the Group's consolidated financial statements.

- Amendments to References to Conceptual Framework in PFRS Standards set out amendments to PFRS Standards, their accompanying documents and PFRS practice statements to reflect the issuance of the revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework). The 2018 Conceptual Framework includes:
  - a new chapter on measurement;
  - guidance on reporting financial performance;
  - improved definitions of an asset and a liability, and guidance supporting these definitions; and
  - clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Some Standards, their accompanying documents and PFRS practice statements contain references to, or quotations from, the International Accounting Standards Committee (IASC)'s Framework for the Preparation and Presentation of Financial Statements adopted by the International Accounting Standards Board (IASB) in 2001 or the Conceptual Framework for Financial Reporting issued in 2010. The amendments update some of those references and quotations so that they refer to the 2018 Conceptual Framework, and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

- Definition of a Business (Amendments to PFRS 3 Business Combinations). The amendments narrowed and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. The amendments:
  - Confirmed that a business must include inputs and a process, and clarified that:
    - the process must be substantive; and
    - the inputs and process must together significantly contribute to creating outputs;
  - narrowed the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs; and
  - added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets.



- Definition of Material (Amendments to PAS 1 Presentation of Financial Statements and PAS 8 Accounting Policies, Changes in Accounting Estimates and Errors). The amendments refine the definition of material. The amended definition of material states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify the definition of material and its application by:
  - (a) raising the threshold at which information becomes material by replacing the term 'could influence' with 'could reasonably be expected to influence';
  - (b) including the concept of 'obscuring information' alongside the concept of 'omitting' and 'misstating' information in the definition;
  - (c) clarifying that the users to which the definition refers are the primary users of general purpose financial statements referred to in the Conceptual Framework;
  - (d) clarifying the explanatory paragraphs accompanying the definition; and
  - (e) aligning the wording of the definition of material across PFRS Standards and other publications.

The amendments are expected to help entities make better materiality judgements without substantively changing existing requirements.

#### Standards Issued but Not Yet Adopted

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2020. However, the Group has not early adopted the following new or amended standards in preparing these consolidated financial statements. Unless otherwise stated, none of these are expected to have a significant impact on the Group's consolidated financial statements.

#### *Effective June 1, 2020*

- *COVID-19-Related Rent Concessions (Amendment to PFRS 16 Leases)*. The amendments introduce an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. A lessee that applies the practical expedient is not required to assess whether eligible rent concessions are lease modifications, and accounts for them in accordance with other applicable guidance. The practical expedient apply if:
  - the reduction in lease payments relates to payments due on or before June 30, 2021; and
  - the reduction in lease payments relates to payments due on or before June 30, 2021; and
  - no other substantive changes have been made to the terms of the lease.

Lessees applying the practical expedient are required to disclose that fact, whether they have applied the practical expedient to all eligible rent concessions and, if not, the nature of the contracts to which they have applied the practical expedient; and the amount recognized in profit or loss for the reporting period arising from application of the practical expedient. No practical expedient is provided for lessors.

*Effective January 1, 2022*

- *Property, Plant and Equipment - Proceeds before Intended Use (Amendments to PAS 16 Property, Plant and Equipment)*. The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment the proceeds from selling items produced before that asset is available for use. The proceeds before intended use should be recognized in profit or loss, together with the costs of producing those items which are identified and measured in accordance with PAS 2 Inventories.

The amendments also clarify that testing whether an item of property, plant and equipment is functioning properly means assessing its technical and physical performance rather than assessing its financial performance.

For the sale of items that are not part of a Group's ordinary activities, the amendments require the Group to disclose separately the sales proceeds and related production cost recognized in profit or loss and specify the line items in which such proceeds and costs are included in the statement of comprehensive income. This disclosure is not required if such proceeds and cost are presented separately in the statement of comprehensive income.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022. Earlier application is permitted. The amendments apply retrospectively, but only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the Group first applies the amendments.

- *Onerous Contracts - Cost of Fulfilling a Contract (Amendment to PAS 37 Provisions, Contingent Liabilities and Contingent Assets)*. The amendments clarify that the cost of fulfilling a contract when assessing whether a contract is onerous includes all costs that relate directly to a contract - i.e. it comprises both incremental costs and an allocation of other direct costs.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 to contracts existing at the date when the amendments are first applied. At the date of initial application, the cumulative effect of applying the amendments is recognized as an opening balance adjustment to retained earnings or other component of equity, as appropriate. The comparatives are not restated. Earlier application is permitted.

- *Annual Improvements to PFRS Standards 2018-2020*. This cycle of improvements contains amendments to four standards:
  - *Subsidiary as a First-time Adopter (Amendment to PFRS 1 First-time Adoption of Philippine Financial Reporting Standards)*. The amendment simplifies the application of PFRS 1 for a subsidiary that becomes a first-time adopter of PFRS later than its parent. The subsidiary may elect to measure cumulative translation differences for all foreign operations at amounts included in the consolidated financial statements of parent, based on the parent's date of transition to PFRS.
  - *Fees in the '10 percent' Test for Derecognition of Financial Liabilities (Amendment to PFRS 9 Financial Instruments)*. The amendment clarifies that for the purpose of performing the '10 per cent' test for derecognition of financial liabilities, the fees paid net of fees received included in the discounted cash flows include only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.
  - *Lease Incentives (Amendment to Illustrative Examples accompanying PFRS 16 Leases)*. The amendment deletes from the Illustrative Example 13 the reimbursement relating to leasehold improvements to remove the potential for confusion because the example had not explained clearly enough the conclusion as to whether the reimbursement would meet the definition of a lease incentive
  - *Taxation in Fair Value Measurements (Amendment to PAS 41 Agriculture)*. The amendment removes the requirement to exclude cash flows for taxation when measuring fair value, thereby aligning the fair value measurement requirements in PAS 41 with those in PFRS 13 Fair Value Measurement.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022. Earlier application is permitted.

- *Reference to the Conceptual Framework (Amendment to PFRS 3 Business Combinations)*. The amendments:
  - updated PFRS 3 so that it now refers to the 2018 Conceptual Framework;
  - added a requirement that, for transactions and other events within the scope of PAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, an acquirer applies PAS 37 or IFRIC 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination; and
  - added an explicit statement that an acquirer does not recognize contingent assets acquired in a business combination.

The amendments are effective for business combinations occurring in reporting periods starting on or after January 1, 2022. Earlier application is permitted.

*Effective January 1, 2023*

- Classification of Liabilities as Current or Non-current (Amendments to PAS 1 Presentation of Financial Statements). To promote consistency in application and clarify the requirements on determining whether a liability is current or non-current, the amendments:
  - removed the requirement for a right to defer settlement of a liability for at least twelve months after the reporting period to be unconditional and instead requires that the right must have substance and exist at the end of the reporting period;
  - clarified that a right to defer settlement exists only if the company complies with conditions specified in the loan agreement at the end of the reporting period, even if the lender does not test compliance until a later date; and clarified that settlement of a liability includes transferring a company's own equity instruments to the counterparty, but conversion options that are classified as equity do not affect classification of the liability as current or non-current.

#### Consolidation

The consolidated financial statements incorporate the financial amounts of the Parent Company and its subsidiaries. Subsidiaries are entities over which the Parent Company has control. The Parent Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date that control commences until the date that control ceases. All intra-group transactions, balances, income and expenses are eliminated upon consolidation. Unrealized losses on intragroup transactions are eliminated, unless the transaction provides evidence of an impairment of the assets transferred.

Non-controlling interests represent the portion of profit or loss and net assets not held by the Parent Company and are presented separately in the consolidated statements of income, consolidated statements of comprehensive income and within equity in the consolidated statements of financial position, separately from the equity attributable to the equity holders of the Parent Company.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights

#### Business Combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired and the liabilities assumed. Transaction costs are expensed as incurred.

### Statement of Cash Flows

The Group has chosen to prepare the consolidated statement of cash flows using the indirect method, which presents cash flows from operating activities as the income from operations adjusted for non-cash transactions, deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows. Interest paid on loans is presented as a financing activity. The Group has chosen to present dividends paid to its stockholders as a financing activity cash flow. In the cash flow statement, the Group has classified the principal portion of lease payments, as well as the interest portion, within financing activities. Lease payments are split between interest and principal portions in the cash flow statement. Lease payments for short-term leases, lease payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability are classified as cash flows from operating activities. The Group has classified cash flows from operating leases as operating activities.

### Common Control Business Combinations

Business combinations involving entities under common control are business combinations in which all of the entities are controlled by the same party both before and after the business combination. The Group accounts for such business combinations in accordance with the guidance provided by the Philippine Interpretations Committee Question and Answer (PIC Q&A) No. 2011-02, *PFRS 3.2 Common Control Business Combinations*.

The purchase method of accounting is used, if the transaction was deemed to have commercial substance from the perspective of the reporting entity. In determining whether the business combination has commercial substance, factors such as the underlying purpose of the business combination and the involvement of parties other than the combining entities such as the non-controlling interest, shall be considered. In cases where the transaction has no commercial substance, the business combination is accounted for using the pooling of interests method.

In applying the pooling of interests method, the Group follows PIC Q&A No. 2012-01, *PFRS 3.2 - Application of the Pooling of Interests Method for Business Combinations of Entities under Common Control in Consolidated Financial Statements*, which provides the following guidance:

- The assets and liabilities of the acquired company for the reporting period in which the common control business combinations occur, are included in the Group's consolidated financial statements at their carrying amounts from the actual date of the acquisition. No adjustments are made to reflect the fair values or recognize any new assets or liabilities at the date of the combination. The only adjustments would be to harmonize accounting policies between the combining entities;
- No 'new' goodwill is recognized as a result of the business combination. The excess of the cost of business combinations over the net carrying amounts of the identifiable assets and liabilities of the acquired company is considered as equity adjustment from business combinations, included under "Retained earnings" account in the equity section of the statements of financial position; and
- As a policy, no restatement of financial information in the Group's consolidated financial statements for periods prior to the transaction is made.

### Segment Reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The Group determines and presents operating segments based on the information that is internally provided to the Chairman and the President, collectively as the Group's chief operating decision maker. The Group assessed that its retailing business as a whole represents a single segment.

Segment revenues, expenses and performance include sales and purchases between business segments. Such sales and purchases are eliminated in consolidation.

### Financial Instruments

#### *Financial Assets*

Financial assets are recognized when the Group becomes a party to the contractual provisions of a financial instrument. Financial assets are derecognized when the rights to receive cash flows from the financial assets expire, or if the Group transfers the financial asset to another party and does not retain control or substantially all risks and rewards of the asset. Regular-way purchases and sales of financial assets in the normal course of business are accounted for at settlement date (i.e., the date that the asset is delivered to or by the Group). At initial recognition, the Group measures its financial assets at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset

Financial instruments are recognized initially at fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated as fair value through profit or loss (FVTPL), includes transaction costs. A trade receivable without significant financing component is initially measured at the transaction price.

After initial recognition, the Group classifies its financial assets as subsequently measured at either i) amortized cost, ii) fair value through other comprehensive (FVOCI) income or iii) FVTPL on the basis of both:

- The Group's business model for managing the financial assets
- The contractual cash flow characteristics of the financial asset

Subsequent to initial recognition, financial assets are measured as described below. At each balance sheet date, the Group assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired and recognizes a loss allowance for expected credit losses for financial assets measured at either amortized costs or at fair value through other comprehensive income. If, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12 months of expected credit losses. If, at the reporting date, the credit risk on a financial instrument has increased significantly since initial recognition, the Group measures the loss allowance for the financial instrument at an amount equal to the lifetime expected credit losses. The Group always measures the loss allowance at an amount equal to lifetime expected credit losses for receivables.



A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience, credit assessment and including forward-looking information.

The information analyzed by the Group includes the following, among others:

- actual and expected significant changes in the political, regulatory and technological environment of the debtor or in its business activities.
- payment record - this includes overdue status as well as a range of variables about payment ratios.
- existing and forecast changes in the business, financial and economic conditions.

The Group considers a financial asset to be in default when:

- the debtor is unlikely to pay its credit obligation to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or
- the debtor is past due more than 90 days on any material credit obligation to the Group.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Trade and other receivables are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, the financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

#### *Financial Assets at Amortized Cost*

Financial assets are measured at amortized cost if both i) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset measured at amortized cost is initially recognized at fair value plus transaction cost directly attributable to the asset. After initial recognition, the carrying amount of the financial asset measured at amortized cost is determined using the effective interest method, less any impairment losses.

Financial assets at amortized cost are classified as current assets when the Group expects to realize the asset within 12 months from reporting date. Otherwise, these are classified as noncurrent assets.

Cash and cash equivalents, receivables, due from related parties and security deposits are included in this category.

Cash includes cash on hand and in banks which are stated at face value. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from the date of acquisition and are subject to an insignificant risk of change in value.

#### *Financial Assets at FVOCI*

A debt financial asset is measured at FVOCI if both i) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI.

The financial asset is recognized initially at fair value plus transaction cost directly attributable to the asset. After initial recognition, the asset is measured at fair value with changes in fair value included in other comprehensive income. For debt instruments, interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other gains and losses recognized in OCI. Accumulated gains or losses recognized through other comprehensive income are reclassified to profit or loss when the asset is derecognized. For equity investments, dividends are recognized in profit or loss while other gains and losses are recognized in OCI and are never reclassified to profit or loss.

The Group's equity securities are included in this category.

The Group has no financial assets at FVOCI with recycling of cumulative gains or losses (debt instruments) as at December 31, 2020 and 2019.

#### *Financial Assets at FVTPL*

When any of the above-mentioned conditions for classification of financial assets are not met, a financial asset is classified as at FVTPL and measured at fair value with changes in fair value recognized in profit or loss.

A financial asset measured at FVTPL is recognized initially at fair value and its transaction cost is recognized in profit or loss when incurred. A gain or loss on a financial asset measured at fair value through profit or loss is recognized in profit or loss for the reporting period in which it arises.

The Group may, at initial recognition, irrevocably designate a financial asset as measured at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

Debt financial assets that do not meet the amortized cost criteria, or that meet the criteria but the Group has chosen to designate as at FVTPL at initial recognition, are measured at fair value through profit or loss.

Equity investments are classified as at FVTPL, unless the Group designates an investment that is not held for trading as at FVOCI at initial recognition.

As of December 31, 2020 and 2019, the Group has not designated any debt instrument that meets the amortized cost criteria as at FVTPL.

Financial assets at FVTPL are carried at fair value and gains and losses on these instruments are recognized as "Unrealized valuation loss on financial assets at FVTPL" in the consolidated statement of comprehensive income. Interest earned on these investments is reported in the consolidated statement of comprehensive income under 'Interest income' while dividend income is reported in the consolidated statement of comprehensive income under "Others" when the right of payment has been established. Quoted market prices, when available, are used to determine the fair value of these financial instruments. If quoted market prices are not available, their fair values are estimated based on market observable inputs.

The Group's investments in equity securities and government securities are included under this category (see Note 9).

#### *Financial Liabilities*

Financial liabilities are recognized when the Group becomes a party to the contractual provisions of a financial instrument. Financial liabilities are derecognized when the Group's obligations specified in the contract expire or are discharged or cancelled.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group classifies all financial liabilities as subsequently measured at amortized cost, except for:

- (a) financial liabilities designated by the Group at initial recognition as at fair value through profit or loss, when doing so results in more relevant information.
- (b) financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.
- (c) contingent consideration recognized by the Group in a business combination which shall subsequently be measured at fair value with changes recognized in profit or loss.
- (d) financial guarantee contracts and commitments to provide a loan at a below-market interest rate which are initially measured at fair value and subsequently at the higher of amortized amount and amount of loss allowance.

Any difference between the proceeds and redemption value is recognized in the income statement over the period of the loans and short-term borrowings using the effective interest method.

Financial liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Trade and other payables, short-term loans, long-term loans, lease liabilities, due to related parties and customers' deposits are generally included in this category.

### *Offsetting Financial Instruments*

Financial assets and liabilities are offset and the net amount is reported in the consolidated statements of financial position if, and only if, there is a currently enforceable right to offset the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statements of financial position.

*'Day 1' Profit.* 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 from observable market, the Group recognizes the difference between the transaction price and the fair value (a 'Day 1' profit) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where data used is not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' profit amount.

### Fair Value Measurements

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 measurement date. The fair value is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the most advantageous market for the asset or liability. The principal or most advantageous market must be accessible to the Group.

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group 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 consolidated 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 prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs for the asset or liability that are not based on observable market data.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing the categorization at the end of each reporting period.

### Inventories

Inventories are valued at the lower of cost and net realizable value. Inventories include merchandise inventories, liquors, wines and spirits. Costs incurred in bringing each inventory to its present location and condition are accounted as follows:

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Merchandise inventories	-	Purchase price, including duties, transport and handling costs, and other incidental expenses, determined using moving average method
Liquors, wines and spirits.	-	Purchase price, including duties, transport and handling costs, and other incidental expenses, determined using first-in, first-out method

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

### Investments in Joint Arrangements and Associates

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor has rather than the legal structure of the joint arrangement. Joint operations arise where the Group has both rights to the assets and obligations for the liabilities relating to the arrangement and, therefore, the Group accounts for its share of assets, liabilities, revenue and expenses. Joint ventures arise where the Group has rights to the net assets of the arrangement and, therefore, the Group equity accounts for its interest.

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Significant influence is defined as the power to participate in the financial and operating policy decisions of the entity but not control or joint control over those policies. Associates are accounted for using the equity method.

Under the equity method, investments in associates and joint ventures are measured initially at cost and subsequently adjusted for post-acquisition changes in the Group's share of the net assets of the investment (net of any accumulated impairment in the value of individual investments). Where necessary, adjustments are made to the financial amounts of the associates and joint ventures to ensure consistency with the accounting policies of the Group. Unrealized gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of Group's stake in these investments. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the assets transferred.

### Property and Equipment

Property and equipment, excluding land and construction in progress, are carried at cost less accumulated depreciation, amortization and impairment losses, if any. Land is carried at cost. Construction in progress represents structures under construction and is stated at cost. This includes the costs of construction and other direct costs. Construction in progress is not depreciated until such time that the relevant assets are ready for use.

Initially, an item of property and equipment is measured at its cost, which comprises its purchase price and any directly attributable costs of bringing the asset to the location and condition for its intended use. Subsequent expenditures are added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance, will flow to the Group. All other subsequent expenditures are recognized in profit or loss.

Depreciation are computed on a straight-line basis over the estimated useful lives of the assets as follows:

	Number of Years
Buildings	15 - 30
Furniture and fixtures	2 - 20
Office and store equipment	2 - 15
Transportation equipment	3 - 5

Wells, platforms and other facilities comprising oil and gas property represents the Group's share in the Service Contract (SC) 14's total capitalized exploration and development expenditures. These are depreciated using the unit-of-production method based upon estimates of proven developed reserves. Proven developed reserves are the portion of reserves that are reasonably certain to be produced and sold during the remaining period of existing production licenses and agreements. The effect of revisions of previous estimates of proved developed reserves is taken up prospectively in the unit-of-production calculation. Estimates of decommissioning and abandonment costs, which are accrued based on unit-of-production rate, which depends on approved budget and reserve estimates, are also included in the wells, platforms and other facilities account as these costs are treated as recoverable costs to be deducted from oil sales proceeds prior to remittance of government share as indicated in the agreement among Consortium members under the SC.

Leasehold improvements are amortized over 3 to 20 years or the lease term, whichever is shorter.

Depreciation of an item of property and equipment begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation or amortization ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, and the date the asset is derecognized.

The estimated useful lives and depreciation method are reviewed periodically to ensure that the periods and method of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation is recognized in profit or loss. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and any impairment in value are removed from the accounts and any resulting gain or loss is recognized in profit or loss.

#### Investment Properties

Investment properties consist of land and buildings held to earn rentals. Investment properties are initially measured at cost, including transaction costs. The carrying amount includes the costs of replacing part of an existing investment property at the time the costs are incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing an investment property. Investment properties, except for land, are stated at cost less accumulated depreciation and any accumulated impairment in value. Land is stated at cost less any accumulated impairment in value.



Depreciation is computed on a straight-line basis over the estimated useful lives of the investment properties as follows:

	Number of Years
Land improvements	25
Buildings	10 - 50

The remaining useful lives and depreciation method are reviewed periodically to ensure that such periods and methods of depreciation are consistent with the expected pattern of economic benefits from buildings and land improvements.

Buildings in progress which represents properties under construction are stated at cost and depreciated only from such time as the relevant assets are completed and put into operational use. Upon completion, these properties are classified to the relevant investment property or property and equipment account.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to earn rentals.

For a transfer from investment property to owner-occupied property, the cost of property for subsequent accounting is its carrying value at the date of change in use. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

Investment properties are derecognized when either they have been disposed of, or when investment properties are permanently withdrawn from use and no future economic benefits is expected from its disposal. Any gains or losses on the retirement or disposal of investment properties are recognized in profit or loss in the year of retirement or disposal.

#### Construction in Progress

Construction in progress, which are stated at cost, are properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, which are carried at cost less any recognized impairment loss. This includes the costs of construction and other direct costs. These assets are not depreciated until such time that the relevant assets are completed and available for use.

#### Assets Held for Sale

Noncurrent assets or disposal groups comprising assets and liabilities, are classified as held for sale if it is highly probable that they will be primarily through sale rather through continuing use.

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held-for-sale and subsequent gains and losses on remeasurement are recognized in profit or loss.

Once classified as held for sale, any equity-accounted investee is no longer equity accounted.

## Intangible Assets

### *Goodwill and Impairment of Goodwill*

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group's interest in the net fair value of the identifiable assets, liabilities and assumed contingent liabilities at the date of acquisition. It is carried at cost less accumulated impairment losses. Goodwill on acquisitions of joint ventures and associates is included in the carrying amount of the investment. For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of a business combination. Goodwill is allocated to a cash-generating unit (or group of cash-generating units) representing the lowest level within the Group at which the goodwill is monitored for internal management purposes and is never larger than an operating segment before aggregation. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the cash-generating unit may be impaired. Goodwill on acquisitions of associates and joint ventures is assessed for impairment as part of the investment whenever there is an indication that the investment may be impaired. An impairment loss is recognized for the amount by which the cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of a cash-generating unit's fair value less costs of disposal or its value in use. An impairment loss is allocated first to reduce the carrying amount of the goodwill and then to the other assets of the cash generating unit pro rata on the basis of the carrying amount of each asset. An impairment loss recognized for goodwill is not reversed in subsequent periods.

### *Other Intangible Assets*

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less amortization and any impairment losses. Intangible assets with finite lives are amortized on a straight-line basis over their useful lives of 10 to 15 years for computer software and licenses and 20 years for leasehold rights, and tested for impairment whenever there is an indication that they may be impaired. The amortization period and method is reviewed at each financial year-end.

### Impairment of Non-current Assets Other than Goodwill

The Group assesses whether there is any indication that the property and equipment, right-of-use assets, investments, and intangible assets with finite lives may be impaired. The Group performs impairment testing where there are indicators of impairment. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less cost of disposal, and value in use. When the recoverable amount is less than the carrying amount, an impairment loss is recognized immediately in the Group's profit or loss.

Similarly, the Group reviews annually whether there is an indication that recognized impairment losses no longer exists or decreased. A reversal of an impairment loss is recognized immediately as a credit to the Group's profit or loss.

### Deferred Oil and Mineral Exploration Costs

Deferred oil and exploration costs are accounted for using the full-cost method, where all acquisition, exploration and development costs are capitalized as deferred costs when incurred and on the basis of each contract area. Where oil and gas of commercial quantity is produced, the exploration and development costs are reclassified to and capitalized as wells, platforms and other facilities under the "Property and equipment" account. Producing and non-producing contract areas are evaluated periodically and considering a number of factors, a determination is made whether it is probable that a significant impairment of the carrying cost of deferred oil and mineral exploration costs of each contract area has occurred. If impairment is believed to have occurred, a further analysis is performed to determine the impairment to be recorded for specific contract areas.

If the Group abandons all exploration efforts in a contract area where there are no proven reserves, all acquisition and exploration costs associated with the contract area are recognized in profit or loss. A contract area is considered abandoned if the contract has expired and/or there are no definite plans for further exploration and development.

Proceeds from the sale of crude oil lifted from an area under production testing during the exploration stage are applied against deferred oil exploration costs.

Expenditures for mineral exploration and development work are capitalized as deferred costs when incurred. These expenditures are provided for with an allowance for when there are indications that the exploration results are negative. These are recognized in profit or loss when the projects are abandoned or determined to be definitely unproductive. When the exploration work results are positive, the exploration costs and subsequent development costs are capitalized and amortized using the unit of production method from the start of commercial operations.

### Employee Benefits

#### *Short-term Employee Benefits*

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group 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.

#### *Retirement Benefits Cost*

The Group's net obligation in respect of the defined benefit plan is calculated by estimating the amount of the future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligation is performed on a periodic basis by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan, if any.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability (asset), taking into account any changes in the net defined liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to the defined benefit plan are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss.

The Group has a non-contributory multi-employer plan which is accounted for as a defined benefit plan. The Group is not required to pre-fund the future defined benefits payable under the Retirement Plan before they become due. For this reason, the amount and timing of contributions to the Retirement Fund to support the defined benefits are at the Group's discretion. However, in the event a defined benefit claim arises and the Retirement Fund is insufficient to pay the claim, the shortfall will then be due and payable by the Group to the Retirement Fund.

The Group recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

## Equity

### *Capital Stock*

Capital stock is classified as equity. Incremental costs directly attributable to the issuance of capital stock are recognized as a deduction from equity, net of any tax effects.

### *Additional Paid-in Capital*

The amount of contribution in excess of par value is accounted for as "Additional paid-in capital." Additional paid-in capital also arises from additional capital contributions from the shareholders.

### *Retained Earnings and Dividend Distribution*

Retained earnings include all current and prior period results as reported in profit or loss, prior period adjustments less declaration of dividends.

Dividend distribution to the Group's shareholders is recognized as a liability and deducted from equity in the Group's consolidated statements of financial position in the period in which the dividends are approved and declared by the Group's BOD.

### *Treasury Stock*

Own equity instruments which are reacquired are carried at cost and are deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. When the shares of stock are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is charged to additional paid-in capital to the extent of the specific or average additional paid-in capital when the shares of stock were issued and to retained earnings for the remaining balance.

#### Other Comprehensive Income

Other comprehensive income are items of income and expense (including reclassification adjustments, if any) such as remeasurements of defined benefit plans that are not recognized in profit or loss as required or permitted by the related accounting standards.

#### Revenue Recognition

The Group identifies each distinct performance obligation to transfer goods (or bundle of goods) or services. The Group recognizes revenue when (or as) it satisfies a performance obligation by transferring the control of goods or services to the customer. The transaction price is the amount of consideration the Group expects to receive under the arrangement. The Group concluded that it is acting as principal for all its revenue arrangements below, except for concession fee income and other rental income.

- *Merchandise Sales* - The Group generally recognizes sale of merchandise at the point of sale when customer takes possession of goods and tenders payment. At point of sale, the performance obligation is satisfied because control of the merchandise transfers to the customer. Revenue is recorded at the point of sale based on the transaction price on the merchandise tag, net of any applicable discounts, sales taxes and refunds. For e-commerce sales, the Group recognizes sales upon delivery of goods through its online channel.
- *Concession Fee Income* - The Group enters into certain agreements with concessionaires that offer goods to the Group's customers. In exchange, the Group receives payment in the form of commissions based on a specified percentage of the merchandise sales. The Group serves as agent in these contracts and recognizes the net amount earned as commissions in the period in which the event or condition that triggers the payment occurs.
- *Membership* - The Group charges a membership fee to its customers. The fee allows the customer to shop in the Group's stores for the duration of the membership, which is generally 12 months. The Group recognizes the fee in the period in which it occurs.
- *Gift Certificates* - The Group recognizes revenue from the sale gift certificates when the gift certificate is redeemed by customer.
- *Other Income* - The Group recognizes various incidental income in the period in which the services/goods were rendered/delivered.

#### *PIC Q&A 2018-12-H Accounting for Common Usage Service Area (CUSA) Charges*

The interpretation issued by the Philippine Interpretations Committee (PIC) serves as a guidance on some implementation issues brought about by adoption of PFRS 15, *Revenue from Contracts with Customer's* on the real estate industry.

The interpretation is approved on February 14, 2018, with an option to defer the application of the provisions for a period of three (3) years. The Group adopted this interpretation starting January 1, 2019

#### Contract Balances

##### *Receivables*

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

The sales activities of the Group do not result in a material amount of unperformed obligations of the Group and, therefore, no contract assets are recognized separately from receivables.

#### *Contract Liabilities*

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Group performs under the contract.

The Group does enter into transactions with customers where contract liabilities result from consideration being received from the customer prior to the Group satisfying its performance obligations. These contract liabilities are presented on the statement of financial position and in the notes as unredeemed gift certificate liabilities.

#### Cost and Expense Recognition

The Group's cost of sales includes the direct costs of sold merchandise, which includes custom, taxes, duties and inbound shipping costs, inventory shrinkage and adjustments and reserves for excess, aged and obsolete inventory. Cost of sales also includes certain distribution center costs.

#### *Vendor Rebates and Allowances*

The Group receives various types of cash consideration from vendors, principally in the form of rebates, based on purchasing or selling certain volumes of product, time-based rebates or allowances, which may include product placement allowances or exclusivity arrangements covering a predetermined period of time, price protection rebates and allowances for retail price reductions on certain merchandise and salvage allowances for product that is damaged, defective or becomes out-of-date.

Such vendor rebates and allowances are recognized based on a systematic and rational allocation of the cash consideration offered to the underlying transaction that results in progress by the Group's toward earning the rebates and allowances, provided the amounts to be earned are probable and reasonably estimable. Otherwise, rebates and allowances are recognized only when predetermined milestones are met. The Group recognizes product placement allowances also as a reduction of cost of sales in the period in which the product placement is completed. Time-based rebates or allowances are recognized as a reduction of cost of sales over the performance period on a straight-line basis. All other vendor rebates and allowances are recognized as a reduction of cost of sales when the merchandise is sold or otherwise disposed.

#### *Operating Expenses*

Operating expenses constitute costs of administering the business. These are recognized as expenses as incurred.



### Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset - this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physical distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset. The Group has the right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of the asset if either:
  - the Group has the right to operate the asset; or
  - the Group designed the asset in a way that predetermines how and for what purpose it will be used.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single component.

### *As a Lessee*

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct cost incurred and an estimate of costs to dismantle and remove or restore the underlying asset or the site on which it is located, less any incentives received.

The right-of-use assets are subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use assets or the end of lease term. The estimated useful lives of the right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rates as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

#### *Variable Lease Payments*

Variable lease payments not based on an index or rate are not part of the lease liability. These include payments linked to a lessee's performance derived from the underlying asset. Such payments are recognized in profit or loss in the period in which the event or condition that triggers those payments occurs.

#### *Lease Modifications as a Lessee*

The Group accounts for a lease modification as a separate lease if both the modification increases the scope of the lease by adding the right to use one or more underlying assets and the consideration for the lease increases by an amount commensurate with the standalone price and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group allocates the consideration in the modified contract based on stand-alone prices, determines the lease term and remeasures the lease liability by discounting the revised lease payments using a revised discount rate. For a lease modification that is not accounted for as a separate lease, the Group accounts for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease. The Group recognizes in profit or loss any gain or loss relating to the partial or full termination of the lease. The Group makes a corresponding adjustment to the right-of-use asset for all other lease modifications.

#### *Short-term Leases and Leases of Low-value Assets*

The Group has elected not to recognize right-of-use assets and lease liabilities for short-term leases of 12 months or less and leases of low-value assets. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

#### *As a Lessor*

When the Group act as a lessor, it determines at lease commencement whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers to the lessee substantially all of the risk and rewards of ownership incidental to ownership of the underlying asset. If this is the case, then the lease is finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies exemption described above, then it classifies sub-lease as operating lease.

The Group recognizes lease payments received under operating leases as income on a straight-line basis over the lease term as part of other income.

#### Borrowing Costs

Borrowing costs are recognized as expenses when incurred, except to the extent capitalized. Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized.

#### Income Taxes

Current tax and deferred tax are recognized in the statements of income except to the extent that it relates to a business combination, or items recognized directly in equity or in OCI.

Uncertainties related to taxes that are not income taxes are recognized and measured in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets* unless they are dealt with specifically in another standard.

#### *Current Tax*

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

#### *Deferred Tax*

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or 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; and
- with respect to taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits - Minimum Corporate Income Tax (MCIT) and unused tax losses - Net Operating Loss Carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of MCIT and NOLCO can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference 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; and
- with respect to deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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 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 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 and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at reporting date.

Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

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

#### *Value Added Tax (VAT)*

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

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of tax included.

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of "Prepaid expenses and other current assets" or "Accounts payable and accrued expenses" in the consolidated statements of financial position.

#### Foreign Currency Transactions and Translation

Transactions in currencies other than Philippine peso are recorded at the rates of exchange prevailing on the dates of the transactions. Outstanding monetary assets and liabilities denominated in foreign currencies are translated using the closing exchange rate at the reporting date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

#### Basic and Diluted Earnings Per Share (EPS)

Basic EPS is computed by dividing net income by the weighted average number of common shares outstanding during the period, after retroactive adjustment for stock dividend declared in the current period, if any. Diluted EPS is also computed in the same manner as the aforementioned, except that, the net income and the number of common shares outstanding is adjusted for the effects of all potential dilutive debt or equity instruments.

#### Related Parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities.

#### Provisions and Contingencies

A provision is recognized when the Group has a legal or constructive obligation as a result of a past event; it is probable that an outflow of economic benefits will be required to settle the obligation; and a reliable estimate can be made on the amount of the obligation.

Provisions are revisited at each reporting date and adjusted to reflect the current best estimate. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pretax rate that reflects the current market assessment of the time value of money, and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

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

#### Events After the Reporting Date

Post year-end events that provide additional information about the Group's position at the reporting date (adjusting events) are recognized in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

#### 4. Cash and Cash Equivalents

This account consists of:

<i>(In thousands)</i>	<i>Note</i>	<b>2020</b>	<b>2019</b>
Cash on hand		<b>P782,702</b>	P1,386,391
Cash in banks	31	<b>23,942,183</b>	9,876,932
Money market placements	31	<b>24,142,861</b>	13,138,691
		<b>P48,867,746</b>	P24,402,014

Cash in banks earns interest at the respective bank deposit rates.

Money market placements are made for varying periods up to three months depending on the immediate cash requirements of the Group and earn interest at the prevailing money market placement rates ranging from 0.8% to 3.4% in 2020, 2.7% to 4.8% in 2019, and 2.7% to 6.9% in 2018.

Interest income earned from cash in banks and money market placements amounted to P696.1 million, P495.8 million and P200.4 million in 2020, 2019 and 2018, respectively.

#### 5. Receivables

This account consists of:

<i>(In thousands)</i>	<i>Note</i>	<b>2020</b>	<b>2019</b>
Loans receivable	25	<b>P5,524,543</b>	P11,898,908
Trade receivables		<b>3,020,514</b>	3,754,127
Non-trade receivables		<b>1,187,140</b>	582,867
Interest receivable	25	<b>579,281</b>	342,119
Others		<b>110,339</b>	108,818
		<b>10,421,817</b>	16,686,839
Less allowance for impairment losses on trade receivables		<b>113,636</b>	48,947
	31, 32	<b>P10,308,181</b>	P16,637,892

Trade receivables generally have a one-to-30-day credit terms.

Non-trade receivables consists mainly of e-wallet balance, accrued vendor allowance income and rent due from store tenants.

The movements in the allowance for impairment losses in respect of trade receivables are as follows:

<i>(In thousands)</i>	<b>2020</b>	<b>2019</b>
Beginning balance	<b>P48,947</b>	P40,298
Provisions during the year	<b>64,689</b>	8,649
Ending balance	<b>P113,636</b>	P48,947



## 6. Inventories

This account consists of:

<i>(In thousands)</i>	<i>Note</i>	<b>2020</b>	2019
At cost:			
Merchandise inventories		<b>P21,254,936</b>	P19,977,588
Liquors, wines and spirits		<b>3,659,336</b>	4,744,683
	<b>20</b>	<b>P24,914,272</b>	P24,722,271

Inventory charged to cost of goods sold amounted to P144.4 billion, P135.5 billion and P139.2 billion in 2020, 2019 and 2018, respectively (see Note 20).

## 7. Financial Assets at Fair Value Through Profit or Loss

This account consists of:

	<i>Note</i>	<b>2020</b>	2019
Held-for-trading:	<b>31</b>		
Government securities		<b>P2,383,862</b>	P -
Equity securities		<b>27,513</b>	34,921
		<b>P2,411,375</b>	P34,921

The movements in these securities are as follows:

<i>(In thousands)</i>	<i>Note</i>	<b>2020</b>	2019
<b>Cost</b>		<b>P15,356</b>	P15,356
Addition		<b>7,883,861</b>	-
Disposal		<b>(5,500,000)</b>	-
		<b>2,399,217</b>	15,356
<b>Valuation Adjustments</b>			
Balance at beginning of year		<b>19,565</b>	21,147
Unrealized valuation loss for the year		<b>(7,407)</b>	(1,582)
Balance at end of year		<b>12,158</b>	19,565
	<b>31</b>	<b>P2,411,375</b>	P34,921

In 2020, the Group recognized gain from sale of government securities amounting to P36.2 million while interest income earned from government securities amounted to P2.5 million.

## 8. Financial Assets at Fair Value Through Other Comprehensive Income

This account consists of:

<i>(In thousands)</i>	<i>Note</i>	2020	2019
Investments in common shares			
Quoted	31, 32	<b>P7,294</b>	P8,138
Unquoted	31, 32	<b>2,304</b>	2,304
		<b>9,598</b>	10,442
Investments in preferred shares	31, 32	<b>7,262</b>	7,262
		<b>16,860</b>	17,704
Less current portion		<b>8,365</b>	9,209
Non-current portion		<b>P8,495</b>	P8,495

The quoted shares are designated as FVOCI.

The unquoted shares represent investments in a private domestic company and club membership shares.

Investments in preferred shares pertain to Manila Electric Company which were acquired in connection with the installation of electrical systems for the various stores and offices of the retail segment.

The movements in this account are as follows:

<i>(In thousands)</i>	2020	2019
Balance at beginning of year	<b>P17,704</b>	P15,522
Unrealized fair value gains (losses)	<b>(844)</b>	2,182
Balance at end of year	<b>P16,860</b>	P17,704

The movements in the cumulative unrealized fair value gain are as follows:

<i>(In thousands)</i>	2020	2019
Balance at beginning of year	<b>P5,602</b>	P3,420
Unrealized fair value gain (loss) during the year	<b>(844)</b>	2,182
Balance at end of year	<b>P4,758</b>	P5,602

## 9. Prepaid Expenses and Other Current Assets

This account consists of:

<i>(In thousands)</i>	2020	2019
Prepaid expenses	<b>P910,430</b>	P862,177
Deferred input VAT - current	<b>351,608</b>	297,285
Input VAT	<b>107,686</b>	171,475
Advances to suppliers	<b>72,688</b>	634,763
Creditable withholding tax	<b>5,931</b>	23,486
Others	<b>2,650</b>	11,314
	<b>P1,450,993</b>	P2,000,500

Input VAT represents accumulated input taxes from purchases of goods and services for business operation and purchases of materials and paid services for the building and leasehold construction which can be applied against future output VAT.

Deferred input VAT represents the unamortized portion of accumulated input taxes for purchases of capital assets more than P1 million and unpaid services for building and leasehold constructions which can be applied against future output VAT when realized or paid.

Advances to suppliers pertain to partial down payments made by the liquor distribution segment to foreign suppliers.

Prepaid expenses pertain mainly to the unamortized portion of premiums for insurance coverage and registration fees and other taxes paid to the Government, and advance payments for advertisements and promotions.

<i>(In thousands)</i>	<b>2020</b>	<b>2019</b>
Taxes and licenses	<b>P745,665</b>	P574,952
Insurance	<b>86,507</b>	127,230
Supplies	<b>33,740</b>	36,555
Advertising and promotion	<b>11,096</b>	79,305
Repairs and maintenance	<b>3,753</b>	9,051
Rent	<b>102</b>	758
Others	<b>29,567</b>	34,326
	<b>P910,430</b>	P862,177

Prepaid taxes and licenses pertain to the unamortized portion of registration fees and other taxes paid to the Government.

Prepaid insurance pertains to the unamortized portion of premiums paid for insurance coverage on merchandise inventories, property and equipment, etc.

Prepaid advertising and promotion pertain to payments made in advance for advertisements and product promotions.

## **10. Investments in Associates and Joint venture**

This account consists of:

<i>(In thousands)</i>	<b>2020</b>	<b>2019</b>
Associates	<b>P554,514</b>	P565,779
Joint venture	<b>175,396</b>	175,396
	<b>P729,910</b>	P741,175

The composition of the carrying value of the Group's investments in associates and joint ventures and the related percentages of ownership interest are shown below:

<i>(In thousands)</i>	Percentage of Ownership		Carrying Amount	
	2020	2019	2020	2019
Associates:				
San Roque Supermarkets Retail Systems, Inc. ("SRS")	49	49	P461,153	P447,586
Pernod Ricard Philippines, Inc. ("PERNOD")	30	30	93,361	118,193
			<b>554,514</b>	<b>565,779</b>
Joint venture:				
AyaGold Retailers, Inc. ("AyaGold")	50	50	175,396	175,396
			<b>P729,910</b>	<b>P741,175</b>

All associates and joint ventures are incorporated in the Philippines.

#### Investments in Associates

##### *SRS*

In 2013, the Group through Entenso acquired 49.34% equity interest in SRS, a local entity that operates the chain of "San Roque Supermarket" stores and "San Roque Pharmacy" stores in Metro Manila and nearby areas.

##### *PERNOD*

The Group entered into a Shareholder's Agreement and Share Purchase Agreement with Pernod Ricard Asia S.A.S and Allied Netherlands B.V. for the purchase of shares of Pernod Ricard Philippines, Inc. ("PERNOD") for Euro2.1 million in February 2019.

The changes in the carrying amounts of are as follows:

<i>(In thousands)</i>	SRS		PERNOD	
	2020	2019	2020	2019
Balance at beginning of year	P447,586	P433,543	P118,193	P -
Acquisition	-	-	-	126,956
Other adjustments	4,047	-	-	-
Share in net income (loss)	9,520	14,043	(24,833)	(8,763)
Balance at end of year	<b>P461,153</b>	<b>P447,586</b>	<b>P93,360</b>	<b>P118,193</b>

The information presented below summarizes the financial information of SRS and Pernod and shows the reconciliation of the Group's share in net assets of such investees to the carrying amounts of its investments.

<i>(In thousands)</i>	SRS		Pernod	
	2020	2019	2020	2019
Percentage of ownership	<b>49.34%</b>	49.34%	<b>30%</b>	30%
Current assets	<b>P4,892,032</b>	P4,816,374	<b>P592,719</b>	P823,323
Noncurrent assets	<b>811,536</b>	239,124	<b>186,311</b>	193,218
Current liabilities	<b>(871,930)</b>	(4,687,331)	<b>(480,426)</b>	(627,084)
Noncurrent liabilities	<b>(4,456,496)</b>	(20,524)	<b>(32,305)</b>	(40,382)
Net assets	<b>375,142</b>	347,643	<b>266,299</b>	349,075
Group's share in net assets	<b>185,095</b>	171,528	<b>79,890</b>	104,723
Goodwill	<b>276,058</b>	276,058	<b>13,470</b>	13,470
Carrying amount of interest in associates	<b>P461,153</b>	P447,586	<b>P93,360</b>	P118,193
Net sales	<b>P5,854,702</b>	P517,583	<b>P585,611</b>	P1,339,369
Net income (loss)	<b>19,295</b>	28,461	<b>(82,776)</b>	(29,210)
Group's share in net income	<b>P9,520</b>	P14,043	<b>(P24,833)</b>	(P8,763)

#### Investment in Joint Ventures

##### *AyaGold Retailers, Inc.*

In 2013, the Group through Entenso partnered with Varejo Corp., an entity engaged in operations of small convenience stores, to incorporate a new company, AyaGold Retailers, Inc. (AyaGold). This is the joint venture vehicle for the investment in and operation of mid-market supermarkets and to pursue other investment opportunities in the Philippine retail sector as may be agreed by both parties. AyaGold was incorporated in the Philippines on July 8, 2013 and started its operation on July 31, 2015 with the opening of its first supermarket called "Merkado" which is located in U.P. Town Center. The second supermarket opened on December 14, 2017.

The Group and its partner each initially invested P60 million or acquired 50% interest in AyaGold by subscribing to 6,000,000 common shares at P1 par value and 54,000,000 redeemable preferred shares at P1 par value. In February 2018, each party invested additional P32.5 million for 32,500,000 common shares at P1.00 par value.

The redeemable preferred shares shall have the following features: voting rights; participating in dividends declaration for common shares and may be entitled to such dividends as may be determined and approved by the Board of Directors; entitled to receive out of the assets of the joint venture available for distribution to the parties, before any distribution of assets is made to holders of common shares, distributions in the amount of the issue value per outstanding redeemable preferred share, plus declared and unpaid dividends to the date of distribution; and redeemable at the option of the joint venture.

The changes in the carrying amount of the investment in AyaGold are as follows:

<i>(In thousands)</i>	2020	2019
Balance at beginning of year	<b>P175,396</b>	P169,632
Share in net income	<b>1,050*</b>	5,764
Balance at end of year	<b>P176,446</b>	P175,396

\*Unrecognized share in net income

The following table summarizes the financial information of AyaGold and shows the reconciliation of the Group's share in net assets of such investee to the carrying amount of its investment:

<i>(In thousands)</i>	2020	2019
Percentage of ownership	<b>50%</b>	50%
Current assets	<b>P295,592</b>	P258,601
Noncurrent assets	<b>455,987</b>	347,630
Total liabilities	<b>(398,688)</b>	(396,935)
Net assets	<b>352,891</b>	209,296
Group's share in net assets	<b>176,446</b>	104,648
Adjustments	-	70,748
Carrying amount of interest in joint venture	<b>P175,396*</b>	P175,396
Net sales	<b>P697,594</b>	P639,968
Net income	<b>2,100</b>	11,528
Group's share in net income	<b>P1,050**</b>	P5,764

\*No movement in the carrying amount of investment in Joint Venture as the share in net income is unrecognized as of December 31, 2020.

\*\*Unrecognized share in net income

#### *PG Lawson Company, Inc.*

In 2014, the Parent Company partnered with Lawson Asia Pacific Holdings Pte. Ltd. and Lawson, Inc. (Lawson), both engaged in the operation of convenience stores in Japan and other Asian countries, to establish PG Lawson Company, Inc. (PLCI), a joint venture company to operate convenience stores in the Philippines.

In April 2018, the Parent Company sold its entire investment in PLCI for P600 million. This resulted in a P363 million gain from the sale of such investment.



## 11. Property and Equipment

The movements and balances of this account as at and for the years ended December 31 consist of:

<i>(In thousands)</i>	Land	Buildings	Storage Tanks	Furniture and Fixtures	Office and Store Equipment	Transportation Equipment	Leasehold Improvements	Wells, Platforms and Other Facilities	Construction in-progress	Total
<b>Cost</b>										
December 31, 2018	P4,079,605	P9,409,424	P505,429	P3,032,311	P9,002,727	P246,949	P11,132,478	P204,955	P1,143,839	P38,757,717
Additions	-	154,562	2,449	273,375	872,186	11,653	483,174	-	2,088,183	3,885,582
Reclassifications	(174,328)	295,504	1,475	64,224	366,999	15,565	1,247,221	-	(1,809,428)	7,232
Disposals	-	-	-	(932)	(178,444)	(813)	(6,947)	-	-	(187,136)
December 31, 2019	3,905,277	9,859,490	509,353	3,368,978	10,063,468	273,354	12,855,926	204,955	1,422,594	42,463,395
Additions	562,236	131,527	4,546	217,903	759,336	24,397	973,022	-	775,883	3,448,850
Reclassifications	-	55,819	(15)	15,426	180,188	(1,696)	606,632	-	(858,895)	(2,541)
Disposals	-	(849)	-	(810)	(18,481)	(1,179)	(139,246)	-	-	(160,565)
<b>December 31, 2020</b>	<b>4,467,513</b>	<b>10,045,987</b>	<b>513,884</b>	<b>3,601,497</b>	<b>10,984,511</b>	<b>294,876</b>	<b>14,296,334</b>	<b>204,955</b>	<b>1,339,582</b>	<b>45,749,139</b>
<b>Accumulated Depreciation and Amortization</b>										
December 31, 2018	-	2,227,620	52,657	1,579,821	5,826,911	208,352	2,473,645	44,918	-	12,413,924
Depreciation and amortization	-	272,395	13,024	241,944	1,033,456	16,962	600,963	-	-	2,178,744
Disposals	-	-	-	(876)	(53,322)	(813)	(2,215)	-	-	(57,226)
Reclassifications	-	-	-	(1,366)	1,312	-	54	-	-	-
December 31, 2019	-	2,500,015	65,681	1,819,523	6,808,357	224,501	3,072,447	44,918	-	14,535,442
Depreciation and amortization	-	285,296	13,147	279,788	1,159,645	15,759	814,481	-	-	2,568,116
Disposals	-	(473)	-	(813)	(17,452)	(630)	(179,067)	-	-	(198,435)
Reclassifications	-	213	-	-	-	-	(213)	-	-	-
<b>December 31, 2020</b>	<b>-</b>	<b>2,785,051</b>	<b>78,828</b>	<b>2,098,498</b>	<b>7,950,550</b>	<b>239,630</b>	<b>3,707,648</b>	<b>44,918</b>	<b>-</b>	<b>16,905,123</b>
<b>Allowance for impairment loss</b>										
	-	-	-	-	-	-	-	160,037	-	160,037
<b>Carrying Amounts</b>										
December 31, 2019	P3,905,277	P7,359,475	P443,672	P1,549,455	P3,255,111	P48,853	P9,783,479	P160,037	P1,422,594	P27,927,953
<b>December 31, 2020</b>	<b>P4,467,513</b>	<b>P7,260,936</b>	<b>P435,056</b>	<b>P1,502,999</b>	<b>P3,033,961</b>	<b>P55,246</b>	<b>P10,588,686</b>	<b>P -</b>	<b>P1,339,582</b>	<b>P28,683,979</b>

Interest expense on loans capitalized as part of property and equipment amounted to P2.9 million, P12.0 million and P81.7 million in 2020, 2019 and 2018, respectively (see Note 17).

The Group recognized an impairment loss on platforms/wells related to the oil and mineral projects that have no significant progress to date amounting to P160 million in 2020.

The cost of fully depreciated property and equipment that are still being used in the Group's operations amounted to P5.7 billion and P3.9 billion as at December 31, 2020 and 2019, respectively.

## 12. Investment Properties

This account consists of:

<i>(In thousands)</i>	Land	Building	Construction in-Progress	Total
<b>Cost</b>				
December 31, 2018	P6,372,748	P5,270,903	P259,158	P11,902,809
Additions	249,468	94,490	273,560	617,518
Reclassifications	-	210,575	(413,453)	(202,878)
December 31, 2019	6,622,216	5,575,968	119,265	12,317,449
Additions	-	198,153	14,926	213,079
Reclassifications	(61,572)	1,278	(15,331)	(75,625)
<b>December 31, 2020</b>	<b>6,560,644</b>	<b>5,775,399</b>	<b>118,860</b>	<b>12,454,903</b>
<b>Accumulated Depreciation</b>				
December 31, 2018	-	1,066,191	-	1,066,191
Depreciation	-	125,260	-	125,260
December 31, 2019	-	1,191,451	-	1,191,451
Depreciation	-	118,059	-	118,059
<b>December 31, 2020</b>	<b>-</b>	<b>1,309,510</b>	<b>-</b>	<b>1,309,510</b>
<b>Carrying Amounts</b>				
December 31, 2019	P6,622,216	P4,384,517	P119,265	P11,125,998
<b>December 31, 2020</b>	<b>P6,560,644</b>	<b>P4,465,889</b>	<b>P118,860</b>	<b>P11,145,393</b>

Depreciation expense are charged to cost of rent (see Note 20). Reclassifications pertain to cost of investment properties that are transferred to property, plant and equipment during the consolidation process. Total reclassifications amounted to P75.6 million and P202.9 million in 2020 and 2019, respectively.

As at December 31, 2020 and 2019, the fair value of the investment properties amounted to P38.0 billion based on independent appraisals obtained in 2019. The fair value of the land and buildings is determined based on the comparative sales of similar or substitute properties and related market data and is based on current cost and comparison with similar new properties, respectively, which is categorized as Level 3 under the fair value hierarchy.

The rental income earned by the real estate and property leasing segment of the Group from these properties amounted to P1.3 billion, P1.5 billion and P1.4 billion in 2020, 2019 and 2018, respectively (see Note 29).

Direct costs incurred pertaining to the lease of these properties amounted to P610.9 million, P660.8 billion and P627.6 million in 2020, 2019, and 2018, respectively (see Note 20).

### 13. Goodwill and Other Intangibles

This account consists of:

<i>(In thousands)</i>	2020	2019
Goodwill	<b>P16,253,526</b>	P16,253,526
Trademark	<b>3,709,661</b>	3,709,661
Customer relationships	<b>889,453</b>	889,453
Computer software and licenses - net	<b>174,989</b>	185,962
Leasehold rights - net	<b>47,346</b>	51,115
	<b>P21,074,975</b>	P21,089,717

#### Goodwill

Goodwill acquired in business combinations represents the excess of the purchase price over the fair value of net identifiable assets of acquired entities which represent the separate CGUs expected to benefit from that business combination. The details are as follows:

<i>(In thousands)</i>	2020	2019
<b>Retail</b>		
Kareila	<b>P12,079,474</b>	P12,079,474
Budgetlane Supermarkets	<b>837,974</b>	837,974
Gant	<b>742,341</b>	742,341
Daily Commodities, Inc. and First Lane Super Traders Co., Inc. (DCI and FLSTCI)	<b>685,904</b>	685,904
Company E	<b>358,152</b>	358,152
Black & White (B&W) Supermart	<b>187,204</b>	187,204
Puregold Junior Supermarket, Inc. (PJSI)	<b>11,374</b>	11,374
<b>Specialty Retail</b>		
OWI	<b>893,790</b>	893,790
CHC	<b>9</b>	9
<b>Real Estate and Property Leasing</b>		
NPSCC	<b>457,304</b>	457,304
	<b>P16,253,526</b>	P16,253,526

Trademarks and customer relationships acquired through a business combination represent the fair value at the date of acquisition of Kareila, which is the CGU for these intangibles.

CGUs to which goodwill and trademarks have been allocated are tested for impairment annually or more frequently if there are indications that a particular CGU might be impaired. Upon adoption of PFRS 16, the carrying values of the CGUs tested for impairment include their right-of-use assets and associated lease liabilities. Cash flow projections used in determining recoverable amounts include the lease payments in both the explicit forecast period and in terminal value. The recoverable amounts for the CGUs have been determined based on value in use.

## VIU

Value in use is determined using discounted cash flow projections that generally cover a period of five years and are based on the financial plans approved by the Group's management. The key assumptions for the value-in-use calculations relate to the weighted average cost of capital (discount rate), sales growth, operating margin and growth rate (terminal value). The discount rates reflect the key assumptions used in the cash flow projections. The pre-tax discount rates ranged between 5.9% to 8.0% in 2020 and 9.1% to 12.2% in 2019. The sales growth rates and operating margins used to estimate future performance are based on past performance and experience of growth rates and operating margins achievable in the Group's markets. The average annual compound sales growth rates applied in the projected periods ranged between 1.3% and 6.0% for the CGUs. The average operating margins applied in the projected periods ranged between 1.3% and 14.8% for the CGUs. The terminal value to extrapolate cash flows beyond the explicit forecast period ranged between 2.6% and 2.9% for the CGUs.

Key assumptions relating to CGUs to which a significant amount of goodwill or intangible assets with indefinite useful lives is allocated are as follows:

	Pre-tax Discount Rate		Growth Rate (Terminal Value)	
	2020	2019	2020	2019
Kareila	5.94%	11.00%	2.60%	2.90%
Budgetlane Supermarkets	6.95%	11.00%	2.60%	2.90%
Gant	7.29%	10.90%	2.60%	2.90%
DCI and FLSTCI	7.06%	10.60%	2.60%	2.90%
OWI	8.00%	10.90%	2.60%	2.90%
NPSCC	5.10%	12.20%	2.60%	2.90%

As at December 31, 2020, management assessed that a reasonably possible change in key assumptions of B&W Supermart and NPSCC would result in the headroom being reduced to nil if either of the following change occurs:

	B&W Supermart	NPSCC
Increase in discount rate	0.3%	4.0%
Decrease in revenue growth rate	1.0%	1.0%

## Computer Software and Licenses

The movements in computer software and licenses are as follows:

<i>(In thousands)</i>	2020	2019
<b>Cost</b>		
Balance at January 1	P425,134	P384,333
Additions	28,678	41,305
Adjustments	-	(504)
Balance at December 31	453,812	425,134
<b>Accumulated Amortization</b>		
Balance at January 1	239,172	196,353
Amortization	39,651	42,819
Balance at December 31	278,823	239,172
<b>Carrying Amount at December 31</b>	<b>P174,989</b>	<b>P185,962</b>

### Leasehold Rights

The movements in leasehold rights are as follows:

	2020	2019
<b>Cost</b>	<b>P75,355</b>	<b>P75,355</b>
<b>Accumulated Amortization</b>		
Balance at January 1	24,241	20,472
Amortization	3,768	3,768
Balance at December 31	28,009	24,240
<b>Carrying Amount at December 31</b>	<b>P47,346</b>	<b>P51,115</b>

On January 25, 2013, the Parent Company entered into a memorandum of agreement with various parties that paved the way for the acquisition of five stores previously owned and operated by the parties. Under the agreement, the parties agreed to sell to the Parent Company all merchandise inventories, equipment, furniture and fixtures as well as granting of rights to lease the buildings owned by parties for a period of 20 years. As a result of the transaction, the Parent Company recognized the excess of the purchase price over the fair value of tangible assets acquired as leasehold rights, which is amortized on a straight-line basis over the lease term.

### 14. Deferred Oil and Mineral Exploration Costs

This account consists of:

<i>(In thousands)</i>	Note	Participating Interest	2020	2019
<b>I. Oil exploration costs:</b>				
SC 14	<i>a</i>			
Block C2 (West Linapacan)		6.12%	<b>P55,753</b>	P55,753
Block D		5.84%	<b>8,113</b>	8,113
Block B1 (North Matinloc)		13.55%	<b>4,192</b>	4,192
			<b>68,058</b>	68,058
SC 6A	<i>b</i>	1.67%		
Octon Block			<b>17,415</b>	17,415
North Block			<b>627</b>	627
SC 6B (Bonita)	<i>d</i>	8.18%	<b>8,027</b>	8,027
			<b>26,069</b>	26,069
SC 51	<i>c</i>		<b>32,817</b>	32,817
Other oil projects			<b>527</b>	527
			<b>33,344</b>	33,344
			<b>127,471</b>	127,471
<b>Allowance for Impairment loss</b>			<b>(127,471)</b>	(127,471)
<b>Balance at end of year</b>			<b>-</b>	<b>-</b>

Forward

<i>(In thousands)</i>	<b>Note</b>	<b>Participating Interest</b>	<b>2020</b>	<b>2019</b>
<b>II. Mineral exploration costs:</b>				
Nickel project	<i>e, f</i>	100.00%	<b>P19,208</b>	P19,208
Anoling gold project	<i>g</i>	3.00%	<b>13,817</b>	13,817
Gold projects	<i>h</i>	100.00%	<b>13,036</b>	13,036
Cement project	<i>i</i>	100.00%	<b>9,603</b>	9,603
Other mineral projects	<i>j, k</i>		<b>382</b>	382
			<b>56,046</b>	56,046
<b>Accumulated for impairment losses</b>			<b>(56,046)</b>	(56,046)
<b>Balance at end of year</b>			-	-
<b>III. Other deferred charges</b>			<b>619</b>	619
<b>Allowance for impairment loss</b>			<b>(619)</b>	(619)
<b>Balance at year end</b>			-	-
			<b>P -</b>	P -

On July 2, 2015, the Department of Energy (DOE) approved the transfer of all participating interest of the Parent Company in its various petroleum service contracts in the Philippines to APMC. APMC hereby assumes the responsibility and work commitments on the service contracts.

All deferred oil and mineral exploration costs are classified as intangible assets on the basis that these costs are recognized in respect of licenses and surveys. These costs were incurred in developing an intangible asset. Oil and mineral explorations are governed by permits issued by the Philippine Government either through DOE under SC or by DENR under Exploration Permit (EP) or MPSA.

As at December 31, 2020 and 2019, management assessed that the deferred oil and mineral exploration costs are impaired given the final plug and abandonment of nine production wells for SC 14 and lack of significant progress on the remaining projects. Accordingly, the Group recognized a full impairment loss of P128.1 million in 2020 and 2019.

a. SC 6A (Octon and North Block) - Offshore Northwest Palawan Philippines

The SC 6A oil field, discovered in 1990, is located in Offshore Northwest Palawan near Galoc Block. This oil field was not put into production due to low oil price in 1990 and also due to limited data. As at December 31, 2019, the Group has participating interest of 1.67%.

The impending expiry of SC 6A-Octon Block was finally resolved in a DOE letter on June 18, 2009. The letter informed the Operator, Philodrill,(PLL) of the 15-year contract extension of the SC Octon Block subject to some terms and conditions.

On December 8, 2011, the DOE approved the transfer of Filipino Consortium's 70% undivided interest to PLL. DOE has also approved the appointment of PLL as the Operator in accordance with the Deed of Assignment and Assumption dated July 1, 2011.



The work commitments approved by the DOE for 2012 include the seismic acquisition, processing and interpretation of 500 square kilometers of 3D data area in Octon. The Group for its part will be carried free up to the drilling of the two exploration wells on the block.

In 2013, the 3D seismic acquisition has been completed and the data is now in Vietnam for data processing and interpretation. Oil reserves have already been determined and would be further refined and fine-tuned by the complete seismic acquisition.

In 2020 and 2019, additional deferred charges amounting to nil and P0.1 million were capitalized.

The Seismic Inversion and Reservoir Characterization project in the north block of SC 6A was completed in mid-December 2020. The stochastic inversion, used to characterize the thinly bedded sands of the GCU, generated promising results and highlighted potential areas of key interest in the vicinity of the Malajon-1 well. Zones exhibiting a high probability of pay were identified within the GCU and are considered plausible locations for well drilling.

b. SC 14 C2 - West Linapacan

In 2019, Philodrill is in the early stages of negotiation with a UK-based firm which intends to acquire interests in the SC14 C2-West Linapacan Block. The area is part of the ongoing seismic reprocessing and Quantitative Interpretation (QI) works over contiguous areas in SC 14 C2 and SC 74 that cover the West Linapacan and Linapacan discoveries. The Joint Quantitative Interpretation (QI) study on the Linapacan (SC 74) and West Linapacan (SC 14 C2) was officially commenced on the 4<sup>th</sup> week of April 2019, with IKON Science as the selected service provider. The project involves joint QI work on a 400 sq km reprocessed PSDM seismic data volume covering the West Linapacan A and B in SC 14 and the Linapacan A and B SC 74. As of end-June 2019, the Phase 1a of the study has been completed and the 2 Joint Venture consortia are now discussing on proceeding to the next phase of the Joint QI work which will involve trial inversion work on 30 sq km data volume of contiguous areas.

Meanwhile, Philodrill implemented the final plug and abandonment (P&A) of nine production wells in the Nido, Matinloc and North Matinloc fields immediately after these fields finally ceased production in early 2019. Using the workboat MV ENA Habitat, Philodrill successfully completed P&A works on seven wells (Matinloc-1,-2,-3, Nido B-1, -2, -3, and North Matinloc-2) from March 30 to May 21, 2019. The completion of the P&A of the remaining wells (Nido A-1 and A-2) was deferred for a separate campaign in April 2020.

During 2020, the SC 14C2 JV entered into a Sale-Purchase Agreement (SPA) and a Farm-out Agreement (FOA) with an Independent Oil & Gas Production, Development and Exploration Company (IOGPDE) that would take over the operatorship of the SC. Following the execution of the SPA & FOA, the JV agreed that the proposed redevelopment strategy by the eventual operator will be adopted and submitted to the DOE during the process of securing the DOE approval for the Deeds of Assignment (DOAs) arising out of the SPA and FOA.

The finalization and execution of DOAs, however, has been greatly delayed by the COVID 19 situation and the Community Quarantines' restrictions since mid-March 2020.

To comply with the commitments under the SC, the proposed 2020 Work Program and Budget (WP&B) covering the period November 2020 to March 2021 was submitted for approval. The proposed work activity will complement the subsequent redevelopment effort for the West Linapacan Field.

c. SC 6B (Bonita) - Offshore Northwest Palawan, Philippines

In 2012, DOE approved the amendments to the Farm-In agreement between the Filipino farmers and the Group of Operators. The Operators proposed to conduct a simultaneous study of Bonita with Cadlao. The \$200,000 approved budget will be shared halfway. However, the Group of Operators failed to submit the financial documents required by the DOE which would prove that it has the financial capability to implement the work programs.

During 2020, Manta Oil Corporation (MOC), operator of the SC, completed a comprehensive technical subsurface review using the 2016 PSTM reprocessed 3D seismic data. The recent subsurface mapping work on the Cadlao structure resulted in an improved P50 STOIIP, with an increase of 15% from previous volumetric.

As at December 31, 2020 and 2019, there were no further developments on the said project.

d. MPSA No. 066-97-VIII - Cement Project, Isabel, Merida, Leyte

The MPSA was assigned last June 1997 and calls for the extraction of limestone as raw material for the manufacture of cement. The assignment is for 25 years with an option to extend for another 25 years.

On March 4, 2003, the DENR granted the Parent Company's application for a 2-year exploration period in its Cement Leyte Project which ended on March 14, 2005.

On September 9, 2011, the Parent Company received the approval for the second extension of the MPSA Exploration. The approved exploration and environmental work programs shall end with the Declaration Mining Project Feasibility in September 2013 or earlier.

The Parent Company, as part of new requirements, is required to conduct a new round of Information, Education and Communication (IEC) before implementing the exploration surveys. The Parent Company has also committed to participate in the National Greening Program initiated by the President.

For the first half of 2012, the Parent Company continued in preparation to conduct a new IEC campaign for the drilling operation it committed to conduct in the contract area within the 2-year extension of the MPSA exploration period.

In 2013, the project was considered delinquent and may soon be cancelled by the regional mining office.

In 2016, the Group paid occupation amounting to P0.5 million for the project.

On May 20, 2020, exploration permit for the project was for the two-year exploration period was granted, subject to the compliance of conditions set forth.

Currently, the Group is in the process of fulfilling its obligations in relation to the renewed exploration permit.

For the years ended December 31, 2020 and 2019, the Group paid occupation fee amounting to P0.17 million and P0.13 million respectively.

#### 15. Other Noncurrent Assets

This account consists of:

<i>(In thousands)</i>	<i>Note</i>	<b>2020</b>	2019
Security deposits	31, 32	<b>P2,260,918</b>	P2,231,789
Deferred input VAT - net of current portion		<b>151,777</b>	487,003
Accrued rent income		<b>448,902</b>	275,949
Advances to contractors		<b>359,696</b>	290,709
Prepaid rent		<b>3,230</b>	3,274
Others		<b>12,288</b>	11,065
		<b>P3,236,811</b>	P3,299,789

Security deposits consist of payments for leases that are refundable at the end of the lease term.

Advances to contractors pertain to payments made in advance for the construction of new stores and buildings.

#### 16. Accounts Payable and Accrued Expenses

This account consists of:

<i>(In thousands)</i>	<i>Note</i>	<b>2020</b>	2019
Trade payables		<b>P9,908,286</b>	P9,087,869
Non-trade payables		<b>1,973,851</b>	2,106,266
Dividends payable	28	<b>2,180,396</b>	1,356,031
Due to government agencies		<b>732,779</b>	744,875
Retention payable		<b>231,027</b>	241,722
Construction bonds		<b>23,048</b>	22,684
Advance rentals		<b>16,824</b>	14,089
Accrued expenses:			
Manpower agency services		<b>1,043,534</b>	977,613
Utilities		<b>243,262</b>	293,390
Rent		<b>86,118</b>	77,435
Others		<b>227,897</b>	206,007
		<b>P16,667,022</b>	P15,127,981

Trade payables generally on a 30-to-60-day payment terms.

Non-trade payables consist of claims arising from billed expenditures in relation to operations other than purchases of goods.

## 17. Loans Payable

As at December 31, 2020 and 2019, the Group has the following outstanding loans:

### a. Short-term Loans

Details of short-term loans follow:

<i>(In thousands)</i>	2020	2019
Balance at beginning of year	P871,124	P4,866,300
Repayments	(829,124)	(4,638,031)
Availments	-	642,855
Balance at end of year	P42,000	P871,124

The balances of peso-denominated short-term loans of each segment as at December 31 follow *(in thousands)*:

Segment	Purpose(s)	Interests	2020	2019
Liquor distribution	a. Inventory financing	3.57% to 5.63%	P42,000	P729,000
Real estate	b. Capital expenditure requirements	2.88% to 5.25%	-	140,554
Grocery retail	c. Inventory financing	4.00% to 6.40%	-	1,570
			P42,000	P871,124

### b. Long-term Loans

The balance of long-term loans of the Group as follow:

<i>(In thousands)</i>	Note	2020	2019
Cosco:			
Fixed-rate peso-denominated loan of 5.267%	a	P3,760,000	P3,800,000
Fixed-rate peso-denominated loan of 5.579%	a	940,000	950,000
PPCI:			
Fixed-rate peso-denominated notes of 4.513%	b	12,000,000	-
KMC			
Fixed-rate peso-denominated loan of 3.50%	c	-	400,000
		16,700,000	5,150,000
Unamortized debt issuance costs		(130,300)	(11,738)
		P16,569,700	P5,138,262

a. *Cosco*

On May 6, 2014, Cosco signed and executed a P5.0 billion corporate financing facility. The proceeds were used to finance the Group's strategic acquisition plans and/or for other general corporate requirements. Subsequently, Cosco issued the following:

- 7-year, unsecured, peso-denominated loan with a consortium of six (6) local banks for P4.0 billion. The loan bears an annual interest based on PDST-F plus spread of 100-150 bps. The repayment of the loan shall be made based on the following schedule: 1.0% of the principal amount on the first anniversary after Issue Date and every anniversary until the sixth anniversary; and 94.0% of the principal amount on maturity date.
- 10-year, unsecured, peso-denominated loan with a consortium of two (2) local banks for P1.0 billion. The loan bears an annual interest based on PDST-F plus spread of 100-150 bps. The repayment of the loan shall be made based on the following schedule: 1.0% of the principal amount on the first anniversary after Issue Date and every anniversary until the ninth anniversary; and 91.0% of the principal amount on maturity date.

These loan agreements contain, among others, covenants relating to merger and consolidation, maintenance of certain financial ratios, working capital requirements, restrictions on guarantees, and payments of dividends.

As of December 31, 2020 and 2019, Cosco is compliant with the loan covenants.

b. *PPCI*

On June 13, 2013, PPCI obtained a P2 billion unsecured loan from a local bank, which is payable on May 21, 2018 and bears interest at 3.50% per annum. The interest is due every month.

On May 2, 2018, PPCI partially paid the loan amounting to P660 million and the maturity for the outstanding balance of P1.4 billion was renewed for 7 years at 6.4% interest per annum.

In 2019, PPCI fully paid the outstanding balance.

On September 30, 2020, PPCI raised P12-billion from the issuance of fixed-rate corporate notes for its store network expansion, other strategic investments and general corporate requirements. This consists of P7-billion notes that have a seven-year tenor and P5-billion notes that have a 10-year tenor with interest rates ranging from 4.00% to 4.513%.

c. *KMC*

On July 23, 2013, KMC obtained a P500 million unsecured loan from a local bank. The loan is payable after 5 years and bears interest at 3.50% per annum. The interest is due every month.

In 2015, KMC partially paid the loan amounting to P100 million.

On May 2, 2018, the maturity for the outstanding balance of P400 million was renewed for 7 years at 6.4% interest rate per annum. The entire loan was paid on May 12, 2020.

Total interest expense charged to profit or loss amounted to P439.9 million, P403.0 million and P468.8 million in 2020, 2019 and 2018, respectively.

Interest expense on loans capitalized as part of property and equipment amounted to P2.9 million, P12.0 million and P81.7 million in 2020, 2019 and 2018, respectively (see Note 11).

The movements in debt issuance costs are as follows

	2020	2019
Balance at beginning of the year	P11,738	P16,221
Additions	129,000	-
Amortizations	(10,438)	(4,483)
Balance at end of the year	P130,300	P11,738

*Changes in Liabilities Arising from Financing Activities:*

The movements and balances of this account are as follows:

	Short Term Loans Payable	Long Term Loans Payable	Dividend Payable (Notes 16 and 28)	Lease Liabilities (Note 21)	Total
Balance at January 1, 2020	P871,124	P5,138,262	P1,356,031	P26,668,941	P34,034,358
Changes from financing cash flows:					
Payment of loans	(828,124)	(450,000)	-	-	(1,278,124)
Availment of loans	-	12,000,000	-	-	12,000,000
Payment of debt issuance cost	-	(128,000)	-	-	(128,000)
Lease payments	-	-	-	(540,950)	(540,950)
Payment of dividends	-	-	(1,356,031)	-	(1,356,031)
Total changes from financing cash flows	(828,124)	11,421,000	(1,356,031)	(540,950)	8,694,695
Other Changes					
<i>Liability-related</i>					
Additions	-	-	-	2,693,706	2,693,706
Amortization of debt issuance cost	-	10,438	-	-	10,438
Other lease adjustments	-	-	-	1,362,673	1,362,673
Declaration of dividends	-	-	2,180,396	-	2,180,396
Total liability-related changes	-	10,438	2,180,396	4,056,379	6,247,213
Balance at December 31, 2020	P42,000	P16,569,700	P2,180,396	P30,184,370	P48,976,466

	Short Term Loans Payable	Long Term Loans Payable	Dividend Payable (Notes 13 and 25)	Lease Liabilities (Note 21)	Total
Balance at January 1, 2019	P4,866,300	P6,622,208	P -	P24,222,473	P35,710,981
Changes from financing cash flows:					
Payment of loans	(4,638,031)	(1,488,429)	-	-	(6,126,460)
Availment of loans	642,855	-	-	-	642,855
Lease payments	-	-	-	(567,555)	(567,555)
Payment of dividends	-	-	(1,312,587)	-	(1,312,587)
Total changes from financing cash flows	(3,995,176)	(1,488,429)	(1,312,587)	(567,555)	(7,363,747)
Other Changes					
<i>Liability-related</i>					
Additions	-	-	-	3,178,512	3,178,512
Amortization of debt issuance cost	-	4,483	-	-	4,483
Other lease adjustments	-	-	-	(164,489)	(164,489)
Declaration of dividends	-	-	2,668,618	-	2,668,618
Total liability-related changes	-	4,483	2,668,618	3,014,023	5,687,124
Balance at December 31, 2019	P871,124	P5,138,262	P1,356,031	P26,668,941	P34,034,356



## 18. Other Current Liabilities

This account as at December 31 consists of:

<i>(In thousands)</i>	<i>Note</i>	<b>2020</b>	<b>2019</b>
Customers' deposits	21, 31, 32	<b>P365,754</b>	P351,510
Unredeemed gift certificates		<b>210,388</b>	157,477
Output VAT		<b>63,874</b>	78,225
Promotional discount		<b>9,152</b>	1,934
Others	31, 32	<b>13,281</b>	7,846
		<b>P662,449</b>	P596,992

Customers' deposits consist of payments from the lessees that are refundable at the end of the lease term. These are intended to answer for any unpaid obligations of the lessee to the Group including damages to the leased properties.

Unredeemed gift certificates represent members' claims for issued yet unused gift certificates. These will be closed to sales account upon redemption and are due and demandable anytime.

### Contract Liabilities

The Group identified its unredeemed gift certificates as contract liabilities as of December 31, 2020 and 2019. These represent the Group's obligation to provide goods or services to the customers for which the Group has received consideration from the customers.

Below is the rollforward of contract liabilities:

<i>(In thousands)</i>	<b>2020</b>	<b>2019</b>
Beginning balance	<b>P157,477</b>	P127,912
Add receipts	<b>724,624</b>	481,759
Less sales recognized	<b>671,713</b>	452,194
Ending balance	<b>P210,388</b>	P157,477

## 19. Revenues

The revenue from contracts with customers is disaggregated by revenue stream.

<i>(In thousands)</i>	<b>2020</b>	<b>2019</b>	<b>2018</b>
<b>Revenue from Contracts with Customers (PFRS 15)</b>			
<i>Revenues</i>			
Grocery	<b>P168,632,329</b>	P154,490,309	P141,139,261
Wine and liquor	<b>5,949,178</b>	7,630,100	6,514,654
LPG	-	-	17,090,511
Office and technology supplies	<b>1,669,050</b>	2,447,877	2,086,043
	<b>176,250,557</b>	164,568,286	166,830,469

*Forward*

<i>(In thousands)</i>	2020	2019	2018
<i>Other revenue</i>			
Concession fee income	P2,095,904	P2,056,097	P1,878,359
Membership income	628,621	572,714	513,589
Commission income	25,655	20,524	53,674
Miscellaneous	133,673	149,576	141,892
	<b>2,883,853</b>	<b>2,798,911</b>	<b>2,587,514</b>
<b>Lease revenue (PFRS 16)</b>			
<i>Revenues</i>			
Real estate and property leasing	1,065,742	1,498,426	1,379,888
<i>Other revenue</i>			
Retail ( <i>Other revenue</i> )	277,002	463,942	407,251
	<b>1,342,744</b>	<b>1,962,368</b>	<b>1,787,139</b>
	<b>P180,477,154</b>	<b>P169,329,565</b>	<b>P171,205,122</b>

## 20. Cost of Revenues

Cost of goods sold consists of:

<i>(In thousands)</i>	2020	2019	2018
Beginning inventory	P24,722,271	P23,931,657	P21,194,691
Purchases	144,602,199	136,307,493	141,390,253
Other direct costs	-	-	528,725
Total goods available for sale	<b>169,324,470</b>	<b>160,239,150</b>	<b>163,113,669</b>
Ending inventory	24,914,272	24,722,271	23,931,657
	<b>P144,410,198</b>	<b>P135,516,879</b>	<b>P139,182,012</b>

Cost of rent consists of:

<i>(In thousands)</i>	2020	2019	2018
Depreciation	P245,386	P231,171	P224,109
Security services	82,257	101,594	80,947
Taxes and licenses	92,353	88,537	86,559
Janitorial services	44,980	59,172	56,205
Repairs and maintenance	52,933	61,608	56,505
Management fees	27,122	35,480	40,968
Salaries and wages	21,352	21,062	19,927
Utilities	16,140	31,112	32,782
Insurance	19,018	17,347	19,052
Rentals	3,150	5,950	5,185
Retirement benefit cost	552	515	374
Amusement tax	286	1,547	2,052
Others	5,410	5,693	2,942
	<b>P610,939</b>	<b>P660,788</b>	<b>P627,607</b>

## 21. Leases

### As Lessee

The Group leases parcels of land, stores, warehouses, distribution centers, and parking spaces. The lease terms range from 5 years to 42 years, which are generally renewable based on certain terms and conditions. Rental payments are fixed monthly or per square meter subject to 1%-10% escalation or percentage of store sales, whichever is higher. Variable lease payments that depend on sales are recognized in profit or loss in the period in which the condition that triggers those payments occurs.

The movements in right-of-use assets are as follows:

<i>(In thousands)</i>	2020	2019
<b>Cost</b>		
Balance at January 1	P29,472,240	P26,781,994
Additions	2,942,307	3,331,079
Modifications	1,365,084	(10,498)
Terminations	(143,525)	(163,202)
End of lease term	(127,726)	(467,133)
Balance at December 31	33,508,380	29,472,240
<b>Accumulated Depreciation</b>		
Balance, January 1	7,772,137	6,699,568
Depreciation	1,691,442	1,591,374
Terminations	(97,726)	(51,672)
End of lease term	(127,726)	(467,133)
Balance, December 31	9,238,127	7,772,137
<b>Carrying amount at December 31</b>	<b>P24,270,253</b>	<b>P21,700,103</b>

Lease liabilities included in the statements of financial position are as follows:

<i>(In thousands)</i>	2020	2019
Due within one year	P1,035,180	P567,682
Due beyond one year	29,149,190	26,101,259
	<b>P30,184,370</b>	<b>P26,668,941</b>

The movements in lease liabilities are as follows:

<i>(In thousands)</i>	2020	2019
January 1	P26,668,941	P24,222,473
Additions	2,693,706	3,178,512
Accretion of interest	1,758,234	1,673,636
Repayments	(2,299,184)	(2,241,191)
Terminations	(2,411)	(153,990)
Modifications	1,365,084	(10,499)
December 31	<b>P30,184,370</b>	<b>P26,668,941</b>

Shown below is the maturity analysis of the undiscounted lease payments for the years ended December 31:

<i>(In thousands)</i>	2020	2019	2018
Less than one year	<b>P2,626,930</b>	P2,031,482	P1,798,795
One to five years	<b>10,543,066</b>	8,316,198	7,674,796
More than five years	<b>33,114,129</b>	31,769,098	29,427,442
	<b>P46,284,125</b>	P42,116,778	P38,901,033

The following are the amounts recognized in profit or loss:

<i>(In thousands)</i>	2020	2019	2018, (Restated)
Variable lease payments not included in the measurement of lease liabilities*	<b>P705,720</b>	P708,336	P776,864
Expenses related to leases of low-value assets	<b>32,078</b>	44,724	30,245
Expenses related to short-term leases	<b>12,556</b>	10,111	60,600
Total rent expense	<b>750,354</b>	763,171	867,709
Interest accretion on lease liabilities	<b>1,758,234</b>	1,673,636	1,454,112
Depreciation charge for right-of-use assets	<b>1,465,990</b>	1,072,569	1,162,239
Gain from lease terminations	<b>29,811</b>	42,460	37,850

\*This includes the concession fee expense presented as separate line item under "Operating expenses" in the statements of income.

Low-value assets pertain mainly to credit card terminals, G4s cash solutions technology and office spaces.

#### As Lessor

The Group leases out its investment properties to various lessees. These non-cancellable leases have lease terms of up to twenty-five (25) years. Some of the leases include a clause to enable upward revision of the rental charge on an annual basis based on prevailing market conditions.

The lease agreements, among others, include customers' deposits. These deposits shall answer for any unpaid obligations of the lessee to the Group including damages to the leased properties. Customers' deposits, which are carried at amortized cost, are non-interest bearing and refundable upon termination of the lease agreement, provided that there are no outstanding charges against the tenant. Customers' deposits amounted to P684.4 million and P638.0 million as at December 31, 2020 and 2019, composed of current and noncurrent portion, broken down as follows:

<i>(In thousands)</i>	Note	2020	2019
Current	18	<b>P365,754</b>	P351,510
Noncurrent		<b>318,682</b>	286,522
		<b>P684,436</b>	P638,032

Customers' deposits are recognized initially at fair value and subsequently carried at amortized cost. The fair values of customers' deposits are determined using risk-free interest rates. These are amortized on a straight-line basis.

Rent income recognized as part of "Revenues" account in profit or loss amounted to P1.2 billion, P1.5 billion and P1.4 billion in 2020, 2019 and 2018, respectively.

The scheduled maturities of non-cancellable minimum future rental collections are as follows:

<i>(In thousands)</i>	2020	2019	2018
Less than one year	<b>P1,013,399</b>	P1,206,274	P1,144,812
One to two years	<b>935,072</b>	958,421	1,200,895
Two to three years	<b>877,255</b>	911,110	1,088,371
Three to four years	<b>787,863</b>	778,016	924,874
Four to five years	<b>721,444</b>	738,322	831,857
More than five years	<b>6,974,676</b>	7,139,242	7,388,883
	<b>P11,309,709</b>	P11,731,385	P12,579,692

The Group subleases a portion of its stores to various lessees. The lease terms range from 1 year to 10 years, which are generally renewable based on certain terms and conditions. Rental payments are fixed monthly or percentage of store sales, whichever is higher. Variable lease payments that depend on sales are recognized in profit or loss in the period in which the condition that triggers those payments occurs.

Rent income recognized as part of "Other revenue" account in profit or loss amounted to P277.0 million, P463.9 million and P407.3 million, in 2020, 2019 and 2018, respectively (see Note 22).

The future minimum lease collections under non-cancellable operating leases as at December 31 are as follows:

<i>(In thousands)</i>	2020	2019	2018
Less than one year	<b>P252,349</b>	P275,982	P260,145
One to two years	<b>151,804</b>	139,825	104,021
Two to three years	<b>107,463</b>	132,084	98,262
Three to four years	<b>62,837</b>	109,161	81,209
Four to five years	<b>33,676</b>	99,237	73,826
More than five years	<b>43,756</b>	82,852	95,071
	<b>P651,885</b>	P839,141	P712,534

## 22. Other Revenue

This account consists of:

<i>(In thousands)</i>	Note	2020	2019	2018
Concession fee income		<b>P2,092,899</b>	P2,056,097	P1,878,359
Membership income		<b>628,621</b>	572,714	513,589
Rent income	21	<b>277,002</b>	463,942	407,251
Commission income		<b>25,655</b>	20,524	53,674
Miscellaneous		<b>133,673</b>	149,576	141,892
		<b>P3,157,850</b>	P3,262,853	P2,994,765

Miscellaneous consist of delivery fee income, income from sale of used packaging materials, e-wallet rebates and other individually insignificant items.

## 23. Operating Expenses

This account consists of:

<i>(In thousands)</i>	<i>Note</i>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Depreciation and amortization	11, 12, 13, 21	<b>P3,950,198</b>	P3,191,988	P3,126,787
Manpower agency		<b>3,616,858</b>	3,617,718	3,019,535
Salaries and wages		<b>2,379,211</b>	2,308,371	2,219,108
Communication, light and water		<b>2,224,581</b>	2,427,507	2,382,827
Outside services		<b>1,220,612</b>	1,226,738	1,684,369
Taxes and licenses		<b>1,008,119</b>	907,331	841,909
Rent	21, 25	<b>750,354</b>	763,171	867,709
Advertising and marketing		<b>612,438</b>	647,824	822,940
Repairs and maintenance		<b>601,082</b>	510,638	486,202
Store and office supplies		<b>589,676</b>	571,376	559,444
Credit card charges		<b>446,493</b>	356,309	298,880
Distribution Costs		<b>340,066</b>	338,910	257,833
Transportation		<b>291,182</b>	179,733	188,404
Retirement benefits cost	26	<b>234,979</b>	135,584	170,746
Insurance		<b>238,576</b>	221,217	225,757
Input VAT allocable to exempt sales		<b>229,374</b>	239,069	131,257
SSS/Medicare and HDMF contributions		<b>191,933</b>	195,593	157,949
Representation and entertainment		<b>171,304</b>	137,791	129,864
Impairment loss on property and equipment	11	<b>160,037</b>	-	-
Fuel and oil		<b>73,245</b>	79,129	81,565
Impairment losses on receivables	5	<b>64,689</b>	8,649	12,798
Royalty expense	25	<b>61,961</b>	58,897	54,343
Professional fees		<b>40,237</b>	47,749	51,222
Impairment loss on deferred oil and mineral exploration costs	2, 14	-	128,090	-
Others		<b>650,507</b>	847,707	555,361
		<b>P20,147,712</b>	P19,147,089	P18,326,809



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**24. Other Income (Charges)**

This account consists of:

<i>(In thousands)</i>	<b>Note</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Gain from sale of securities investment		<b>P36,230</b>	P -	P -
Gain from lease terminations	21	<b>29,811</b>	42,460	37,850
Foreign exchange gain (loss)		<b>(19,482)</b>	28,805	23,103
Share in income (losses) of joint ventures and associates	10	<b>(15,313)</b>	11,044	17,142
Unrealized valuation loss on financial assets	7	<b>(7,407)</b>	(1,582)	(10,385)
Bank charges		<b>(4,843)</b>	(14,552)	(49,042)
Gain on disposal of property and equipment		<b>739</b>	-	15,815
Gain (loss) on insurance claim		<b>513</b>	3,503	3,383
Gain on sale of interest in a subsidiary/joint venture	10, 33	-	6,073,605	362,810
Miscellaneous		<b>10,445</b>	5,346	20,818
		<b>P30,693</b>	P6,148,629	P421,494

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## 25. Related Party Transactions

The Group's transactions and balances with its related parties follow (in thousands):

Related Party	Year	Note	Amount of Transactions for the Year	Cash and Cash Equivalents/ Receivables	Due from Related Parties	Lease Liabilities	Due to Related Parties	Terms	Conditions
<b>Under Common Control</b>									
▪ Loans receivable									
Principal	2020		P6,374,365	P5,524,543	P -	P -	P -	Due on September 30, 2021; interest bearing	Unsecured
Interest	2020		237,162	579,091	-	-	-		
Principal	2019	a	11,898,908	11,898,908	-	-	-	Due on September 30, 2020; interest bearing	Unsecured
Interest	2019		342,119	342,119	-	-	-		
▪ Money market placements	2020	b	-	-	-	-	-	Less than 3 months	Unsecured
	2019		4,326,000	4,326,000	-	-	-		
▪ Advances for working capital requirements	2020		-	-	-	-	363,146	Due and demandable; non-interest bearing	Unsecured
	2019		-	-	-	-	363,146		
▪ Management fees	2020	d	29,030	-	-	-	-	Due and demandable; non-interest bearing	Unsecured
	2019		34,585	-	-	-	-		
▪ Rent income	2020	e	125,909	-	-	-	-	Due and demandable; non-interest bearing	Unsecured
	2019		125,909	-	-	-	-		
▪ Rent payments	2020	f	216,311	-	-	3,216,435	-	Due and demandable; non-interest bearing	Unsecured
	2019		332,717	-	-	2,852,778	-		
▪ Transaction costs LPC sale	2020		-	-	-	-	-	Due and demandable; non-interest bearing	Unsecured
	2019		340,654	-	-	-	-		
<b>Associates</b>									
▪ Concession fee expense	2020	c	382,544	-	-	-	-	Due and demandable; non-interest bearing	Unsecured
	2019		466,846	-	-	-	-		
<b>Stockholder</b>									
▪ Advances for working capital requirements	2020		826,132	-	184,852	-	349,316	Due and demandable; non-interest bearing	Unsecured
	2019		174,027	-	192,068	-	933,197		Unimpaired
▪ Royalty expense	2020	g	49,569	-	-	-	49,569	Due and demandable; non-interest bearing	Unsecured
	2019		47,117	-	-	-	47,117		
<b>Key Management Personnel</b>									
▪ Short-term benefits	2020		45,657	-	-	-	-		
	2019		23,211	-	-	-	-		
<b>Total</b>	<b>2020</b>			<b>P6,103,634</b>	<b>P184,852</b>	<b>P3,216,435</b>	<b>P762,031</b>		
<b>Total</b>	<b>2019</b>			<b>P16,567,027</b>	<b>P192,068</b>	<b>P2,852,778</b>	<b>P1,343,460</b>		

a. Loans Receivable

In 2019, the Group through CHC granted loans Union Energy Corporation and League One, Inc., entities under common control, which are payable on September 30, 2020. The loans bear interest based on prevailing market rates agreed with the borrowers on a quarterly basis. Interest rates range from 2% to 4.75%. The loan to Union Energy Corporation was fully paid on December 29, 2020 while loan to League One, Inc. was rolled over for another year at market interest rate.

b. Money Market Placements

The money market placements are with Philippine Bank of Communications, a local bank under common control.

c. Consignment and Concession

On September 27, 2006, PSMT Philippine, Inc. (PriceSmart), referred to as the "Consignee," an entity under common control, entered into a consignment and concession contract with the Group through KMC, referred to as the "Consignor." The Consignee is the owner and operator of four (4) Warehouse, (1) Fort Bonifacio Global City, Taguig City, Metro Manila; (2) Congressional Avenue, Bago-Bantay, Quezon City; (3) Aseana Business Park, Brgy. Tambo, Paranaque City; and (4) Westgate, Filinvest Alabang, Muntinlupa City, including all the furniture, fixtures and equipment presently situated therein.

Under the contract, the Consignor offered to consign goods at the aforesaid four (4) warehouses and the Consignee accepted the offer subject but not limited to the terms and conditions stated as follows:

- The Consignee hereby grants to the Consignor the right to consign, display and offer for sale, and sell goods and merchandise as normally offered for sale by Consignee, at the selling areas at the four (4) warehouses.
- The Consignor shall give the Consignee a trade or volume discount of its gross sales.
- The proceeds of sale of the Consignor shall remain the sole property of the Consignor and shall be kept by the Consignee strictly as money in trust until remitted to the Consignor after deducting the amounts due to the Consignee.
- The term of the contract shall be for a period of five (5) years beginning on the date/s of the signing of the agreement or of the opening of the four (4) warehouses whichever is later, renewable upon mutual agreement of the parties.
- For and in consideration of the consignment/concession right granted, the consignor gives the consignee a trade or volume discount in the amount equivalent to fifteen percent (15%) of the consignee's gross sales which was decreased to ten percent (10%) through an amendment of the contract on January 1, 2011. On February 23, 2012, the contract was further amended giving the consignee a trade or volume discount of five percent (5%) of the consignee's gross sales.

On February 23, 2012, a new agreement was made between the Consignor and Consignee. Under the new agreement, the Consignor offered to consign goods at the aforesaid four (4) warehouses and the Consignee accepted the offer subject but not limited to the terms and conditions stated as follows:

- The Consignor shall pay the Consignee four percent (4%) monthly consignment/concession fee based on the Consignor's monthly gross sales.
- Goods sold by the consignor shall be checked-out and paid at the check-out counters of and be manned and operated by the Consignor and issued receipts through the point-of-sale (POS) machines in the name of the Consignor. The proceeds of the sale are and shall remain as the sole property of the Consignor subject to its obligation to pay the consideration stipulated.
- Ownership of the goods delivered to the Consignor at the warehouses shall remain with the Consignor. Except for the right of Consignee to the payment of the consideration in the amount, manner and within the periods stipulated.
- The Consignment/Concession Contract shall be for a period of five (5) years beginning on March 1, 2012, renewable upon mutual agreement of the parties. The contract was renewed for a period of five (5) years effective March 1, 2017 until February 28, 2022.

On April 22, 2019, the Consignee assigned to the consignor its lease of land located at Westgate, Filinvest Alabang, Muntinlupa City with a lease term from January 1, 2019 until November 15, 2022. The term has been extended until November 15, 2037.

On November 4, 2020, the Consignee assigned to the Consignor its lease of land located at 32<sup>nd</sup> Street, 5<sup>th</sup> Avenue, Bonifacio Global City, Taguig City with a lease term from January 10, 2012 until January 9, 2033.

d. Management Agreement

The Group entered into a management agreement with Puregold Realty Leasing and Management, Inc. (PRLMI), an entity under common control. Under the agreement, PRLMI shall handle the leasing and marketing, billing and collection, documentation, and property management services of the properties owned by the realty segment of the Group. In consideration of such services, the Group shall pay monthly management fee to PRLMI equivalent to 5.0% to 8.5% of rental collected by PRLMI. The agreement is valid for a year, and is renewable upon mutual agreement of both parties.

e. Lease Agreement - As a Lessor

The Group and PriceSmart entered into a lease agreement for the rental of land. The term of the lease is 23 years and renewable under such terms and conditions that shall be agreed upon by the parties.

f. Lease Agreement - As a Lessee

The Group entered into lease agreements mainly for stores and warehouses with various entities under common control. Lease terms range from 3 to 25 years and renewable under such terms and conditions that shall be agreed upon by the parties.

g. License Agreement

On August 15, 2011, the Parent Company entered into a license agreement for the use of trademark and logo. In exchange, the Parent Company pays the owner royalty based on a percentage of sales

Amounts owed by and owed to related parties are to be settled in cash.

Related Party Transactions and Balances Eliminated During Consolidation

The terms, conditions, balances and the volume of related party transactions which were eliminated during consolidation in 2020 and 2019 are as follows:

a Advances and trade receivables from the Parent Company to its subsidiaries

<i>(In thousands)</i>	<b>Outstanding Balance</b>
<b>2020</b>	<b>P6,493,696</b>
2019	10,618,297

These advances are unsecured and with various terms. These are payable in cash. Interest income from these advances amounted to P182.9 million in 2020 and P88.8 million in 2019.

b Receivables from subsidiaries to their fellow subsidiaries

<i>(In thousands)</i>	<b>Outstanding Balance</b>
<b>2020</b>	<b>P3,467,768</b>
2019	5,047,435

These advances are unsecured and with various terms. These are payable in cash.

c Sale of goods of the subsidiaries within the Group

<i>(In thousands)</i>	<b>Amount of Transactions</b>	<b>Outstanding Balance</b>
<b>2020</b>	<b>P2,220,832</b>	<b>P667,167</b>
2019	3,087,297	517,722

Receivables from sale of goods are non-interest bearing are generally on a 30-day credit terms.

d Sale of services of the subsidiaries within the Group

<i>(In thousands)</i>	<b>Amount of Transactions</b>	<b>Outstanding Balance</b>
<b>2020</b>	<b>P630,285</b>	<b>P119,582</b>
2019	524,610	132,033

Receivables from sale of services are unsecured, non-interest bearing and are generally on a 30-day credit terms.

- e Dividend income received by the Parent Company from dividends declared by its subsidiaries

<i>(In thousands)</i>	<b>Amount of Transactions</b>	<b>Outstanding Balance</b>
<b>2020</b>	<b>P884,890</b>	<b>P1,779,604</b>
2019	1,228,737	1,829,061

Cash dividends are due on payment date.

- f Dividend income received by a subsidiary from dividends declared by the Parent Company

<i>(In thousands)</i>	<b>Amount of Transactions</b>	<b>Outstanding Balance</b>
<b>2020</b>	<b>P39,077</b>	<b>P39,077</b>
2019	54,494	29,755

Cash dividends are due on payment date.

- g Management and arrangement fees charged by the Parent Company to its subsidiaries

<i>(In thousands)</i>	<b>Amount of Transactions</b>	<b>Outstanding Balance</b>
2019	P301,403	P443,403

Receivables from management and arrangement fees are non-interest bearing and are due and demandable and payable in cash.

- h Right-of-use assets, lease liabilities and prepayments eliminated as a result of intra-group lease of properties

*Right-of-Use assets*

<i>(In thousands)</i>	<b>Amount of Transactions</b>	<b>Outstanding Balance</b>
<b>2020</b>	<b>P135,608</b>	<b>P2,846,183</b>
2019	109,671	2,981,791

*Lease liabilities*

<i>(In thousands)</i>	<b>Amount of Transactions</b>	<b>Outstanding Balance</b>
<b>2020</b>	<b>P144,490</b>	<b>P4,167,078</b>
2019	32,893	4,311,568



### Prepayments

<i>(In thousands)</i>	<b>Amount of Transactions</b>	<b>Outstanding Balance</b>
<b>2020</b>	<b>P322,299</b>	<b>P1,398,837</b>
2019	268,757	1,721,136

- i Loan receivable issued by the Parent Company to a subsidiary

<i>(In thousands)</i>	<b>Amount of Transactions</b>	<b>Outstanding Balance</b>
<b>2020</b>	<b>P204,643</b>	<b>P3,224,572</b>
2019	-	3,429,215

## 26. Retirement Benefit Costs

The Group has an unfunded, non-contributory, defined benefit plan covering all of its permanent employees. The plan provides retirement benefits under Republic Act No. 7641 (the Act) upon compulsory retirement at the age of sixty five (65) or upon optional retirement at age sixty (60) or more but not more than age sixty five (65) with at least five (5) years in service. The benefits as required by the Act are equivalent to at least one-half month (1/2) month salary for every year of service, a fraction of at least six (6) months being considered as one (1) whole year. The term one-half (1/2) month salary shall mean: (a) 50% of the pay salary; (b) one-twelfth (1/12) of the thirteenth (13th) month pay; and (c) one-twelfth (1/12) cash equivalent of not more than five (5) days of service incentive leaves. Contributions and costs are determined in accordance with the actuarial studies made for the plan. Annual cost is determined using the projected unit credit method. Valuations are obtained on a periodic basis.

The retirement benefits liability recognized in the consolidated statements of financial position as at December 31 are as follows:

<i>(In thousands)</i>	<b>2020</b>	<b>2019</b>
Present value of defined benefits obligation	<b>P1,461,778</b>	P984,469
Fair value of plan assets	<b>(30,018)</b>	(28,651)
	<b>P1,431,760</b>	P955,818

The following table shows reconciliation from the opening balances to the closing balances of the present value of defined benefits obligations:

<i>(In thousands)</i>	<b>2020</b>	<b>2019</b>
Balance at beginning of year	<b>P984,469</b>	P534,446
Included in profit or loss:		
Current service cost	<b>184,082</b>	96,429
Interest cost	<b>51,449</b>	39,670
	<b>235,531</b>	136,099
Included in other comprehensive income		
Remeasurements gain:		
Financial assumptions	<b>326,771</b>	348,338
Experience adjustments	<b>(76,154)</b>	(24,886)
	<b>250,617</b>	323,452
Benefits paid	<b>(8,839)</b>	(4,085)
Reclass to liabilities directly related to assets held-for-sale	-	(5,443)
Balance at end of year	<b>P1,461,778</b>	P984,469

The following table shows reconciliation from the opening balances to the closing balances for fair value of plan assets:

<i>(In thousands)</i>	<b>2020</b>	<b>2019</b>
Balance at beginning of year	<b>P28,651</b>	P25,913
Interest income	<b>1,285</b>	1,936
Return on plan asset excluding interest	<b>82</b>	802
Balance at end of year	<b>P30,018</b>	P28,651

The Group's plan assets as at December 31 consist of the following:

<i>(In thousands)</i>	<b>2020</b>	<b>2019</b>
Cash in banks	<b>P3,294</b>	P2,460
Debt instruments - government bonds	<b>26,527</b>	25,927
Trust fees payable	<b>(14)</b>	(14)
Other	<b>411</b>	278
	<b>P30,218</b>	P28,651

The following were the principal actuarial assumptions at the reporting date:

	<b>2020</b>	<b>2019</b>
Discount rate	<b>3.95% to 3.96%</b>	5.21% to 7.5%
Future salary increases	<b>5% to 8%</b>	5% to 8%

Assumptions regarding future mortality have been based on published statistics and mortality tables.

The weighted average duration of the defined benefit obligation as at December 31, 2020 and 2019 reporting period is 21.5 years and 25.8 years, respectively.

### *Sensitivity Analysis*

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

#### **2020**

<i>(In thousands)</i>	<b>Increase</b>	<b>Decrease</b>
Discount rate (1% movement)	<b>340,315</b>	<b>(266,233)</b>
Future salary increase rate (1% movement)	<b>323,561</b>	<b>(260,132)</b>

#### **2019**

<i>(In thousands)</i>	<b>Increase</b>	<b>Decrease</b>
Discount rate (1% movement)	<b>(P171,669)</b>	<b>P218,568</b>
Future salary increase rate (1% movement)	<b>210,603</b>	<b>(169,496)</b>

It should be noted that the changes assumed to be reasonably possible at the valuation date are open to subjectivity, and do not consider more complex scenarios in which changes other than those assumed may be deemed to be more reasonable.

These defined benefit plans expose the Group to actuarial risks, such as longevity risk, interest rate risk, and market (investment) risk.

### Funding Arrangements

Since the Group does not have a formal retirement plan, benefit claims under the retirement obligation are paid directly by the Group when they become due.

Maturity analysis of the benefit payments:

	<b>2020 (In thousands)</b>				
	<b>Carrying Amount</b>	<b>Contractual Cash Flows</b>	<b>Within 1 Year</b>	<b>Within 1 - 5 Years</b>	<b>Within 5 - 10 Years</b>
Defined benefit obligation	<b>P1,431,760</b>	<b>P274,196</b>	<b>P39,176</b>	<b>P55,524</b>	<b>P179,496</b>

	<b>2019 (In thousands)</b>				
	<b>Carrying Amount</b>	<b>Contractual Cash Flows</b>	<b>Within 1 Year</b>	<b>Within 1 - 5 Years</b>	<b>Within 5 - 10 Years</b>
Defined benefit obligation	<b>P955,818</b>	<b>P225,661</b>	<b>P36,906</b>	<b>P39,274</b>	<b>P149,481</b>

### Multi-employer Retirement Plan

The Group is not required to pre-fund the future defined benefits payable under the Retirement Plan before they become due. For this reason, the amount and timing of contributions to the Retirement Fund to support the defined benefits are at the Group's discretion. However, in the event a defined benefit claim arises and the Retirement Fund is insufficient to pay the claim, the shortfall will then be due and payable from the Group to the Retirement Fund.

The Group does not expect to contribute to the plan in 2021.

### Asset-liability Matching (ALM)

The Group does not have a formal retirement plan and therefore has no plan assets to match against the liabilities under the retirement obligation.

The Group has no expected future contribution for 2021.

## 27. Income Taxes

The provision for income tax consists of:

<i>(In thousands)</i>	2020	2019	2018
Current	<b>P4,098,535</b>	P3,803,735	P3,553,864
Deferred	<b>(273,928)</b>	(282,270)	(268,002)
	<b>P3,824,607</b>	P3,521,465	P3,285,862

The reconciliation of the income tax expense computed at the statutory income tax rate to the actual income tax expense shown in profit or loss is as follows:

<i>(In thousands)</i>	2020	2019	2018
Income before income tax	<b>P13,833,533</b>	P18,914,672	P11,767,666
Income tax expense at the statutory income tax rate:			
30%	<b>P4,061,370</b>	P5,884,228	P3,755,047
5%	<b>14,782</b>	19,441	20,412
Income tax effects of:			
Deduction from gross income due to availment of optional standard deduction	<b>(164,980)</b>	(349,350)	(265,138)
Interest income subject to final tax	<b>(137,720)</b>	(201,719)	(68,571)
Non-deductible interest expense	<b>35,537</b>	68,406	10,044
Changes in unrecognized DTA	<b>33,932</b>	(88,277)	(170,486)
Other income subject to final tax	<b>(10,869)</b>	(1,700)	(33,000)
Non-deductible expenses	<b>(9,424)</b>	(89,061)	105,750
Share in income of associates and joint ventures	<b>7,450</b>	(3,313)	(6,240)
Non-taxable income	<b>(5,848)</b>	(2,738)	(3,004)
Excess of MCIT over RCIT	<b>377</b>	10,060	8,733
NOLCO utilized	-	97,570	39,047
Gain on sale of investment subject to capital gains tax	-	(1,822,082)	(108,843)
Penalties	-	-	2,111
	<b>P3,824,607</b>	P3,521,465	P3,285,862

The components of the Group's deferred tax assets - net (DTA) and deferred tax liabilities - net (DTL) in respect to the following temporary differences are shown below:

*Net Deferred Tax Assets*

<i>(In thousands)</i>	<b>2020</b>	<b>2019</b>
<b>Items recognized in profit or loss</b>		
Net deferred tax assets on:		
Excess of lease liabilities over ROU assets	<b>P1,772,390</b>	P1,554,391
Retirement benefits liability	<b>373,369</b>	303,651
NOLCO	<b>49,750</b>	49,750
Allowance for impairment of deferred oil and mineral exploration costs	<b>38,427</b>	38,427
Allowance for impairment losses on receivables	<b>5,454</b>	5,119
Accrued rent expense	<b>1,702</b>	3,120
Advance rentals	<b>2,211</b>	1,740
Recognition of DTA on merger transaction	<b>117</b>	117
Unrealized foreign exchange loss	<b>-</b>	984
	<b>2,243,420</b>	1,957,299
Deferred tax liabilities on:		
Fair value of intangible assets from business combination	<b>(1,379,734)</b>	(1,379,734)
Accrued rent income	<b>(10,831)</b>	(11,677)
Unrealized foreign exchange gain	<b>(593)</b>	(742)
	<b>(1,391,158)</b>	(1,392,153)
<b>Item recognized in other comprehensive income</b>		
Remeasurement on defined benefits liability	<b>50,457</b>	1,138
	<b>P902,719</b>	P566,284

*Net Deferred Tax Liabilities*

<i>(In thousands)</i>	<b>2020</b>	<b>2019</b>
<b>Items recognized in profit or loss</b>		
Net deferred tax assets on:		
Retirement benefits liability	<b>P1,469</b>	P1,469
Excess of lease liabilities over ROU assets	<b>956</b>	914
Unrealized foreign exchange loss	<b>366</b>	366
	<b>2,791</b>	2,749
Deferred tax liabilities on:		
Accrued rent income	<b>(76,502)</b>	(52,666)
Excess of ROU assets over lease liabilities	<b>(54,339)</b>	(63,104)
Borrowing cost	<b>(13,109)</b>	(13,359)
Advance rentals	<b>-</b>	(1,591)
	<b>(143,950)</b>	(130,720)
<b>Item recognized in other comprehensive income</b>		
Remeasurement on defined benefits liability	<b>(4,429)</b>	(615)
	<b>(P144,588)</b>	(P128,586)

The realization of these deferred tax assets is dependent upon future taxable income when temporary differences and carry forward benefits are expected to be recovered or applied. Deferred tax expense recognized in other comprehensive income pertains to the remeasurements of the retirement benefits liability.

The Group has temporary differences for which deferred tax assets were not recognized because management believes that it is not probable that sufficient taxable profits will be available against which the benefits of the deferred taxes can be utilized.

The unrecognized deferred tax assets as at December 31 are as follows:

<i>(In thousands)</i>	<b>2020</b>	2019
Impairment of property, plant and equipment	<b>P48,011</b>	P -
NOLCO	<b>26,356</b>	50,918
MCIT	<b>10,481</b>	73
Unrealized foreign exchange gain (loss)	<b>75</b>	-
	<b>P84,923</b>	P50,991

The unrecognized deferred tax assets originated from the Parent Company, Canaria Holdings Corporation and Alcorn Petroleum and Mineral Corporation.

The details of the Group's NOLCO which are available for offsetting against future taxable income are shown below (in thousands):

Year Incurred	Amount Incurred	Expired/Applied During the Year	Remaining Balance	Expiration Date
2019	P165,833	P -	P165,833	2022
2020	2,298	-	2,298	2025
	P168,131	P -	P168,131	

The details of the Group's MCIT which are available for offsetting against future taxable income are shown below (in thousands):

Year Incurred	Amount Incurred	Expired/Applied During the Year	Remaining Balance	Expiration Date
2017	P3,593	(P3,593)	P -	2020
2018	8,733	-	8,733	2021
2019	10,060	-	10,060	2022
2020	377	-	377	2023
	P22,763	(P3,593)	P19,170	



## 28. Equity

### Capital Stock

The details of the Parent Company's common shares follow:

	2020		2019	
	Number of Shares	Amount	Number of Shares	Amount
Authorized - P1.00 par value	10,000,000,000	P10,000,000	10,000,000,000	P10,000,000
Issued and outstanding:				
Issued	7,405,263,564	P7,405,264	7,405,263,564	P7,405,264
Less: Treasury shares	(451,238,890)	(1,652,861)	(410,738,990)	(1,403,974)
Outstanding	6,954,024,674	P5,752,403	6,994,524,574	P6,001,290
Treasury shares:				
Balance at beginning of year	410,738,990	P1,403,974	381,629,190	P1,197,727
Buy back of shares	40,499,900	248,887	29,109,800	206,247
Balance at end of year	451,238,890	P1,652,861	410,738,990	P1,403,974

### Treasury Shares

On December 18, 2014, the Parent Company's BOD approved to buy back its common shares up to P1 billion within one year from the approval. This aims to enhance the shareholders' value through the repurchase of shares whenever the stock is trading at a price discount perceived by the Parent Company as not reflective of its fair corporate value. In 2020 and 2019, the Company renewed its program to buy back its shares for another year up to P2.0 billion.

### Retained Earnings

#### *Declaration of Cash Dividends*

In 2020 and 2019, the Parent Company's BOD approved cash dividends for common shareholders with the following details:

Type	Date of Declaration	Date of Record	Date of Payment	Dividend Per Share
Cash	February 1, 2019	February 15, 2019	March 1, 2019	0.06
Cash	February 1, 2019	February 15, 2019	March 1, 2019	0.04
Cash	December 10, 2019	December 27, 2019	January 24, 2020	0.04
Cash	December 10, 2019	December 27, 2019	January 24, 2020	0.08
Cash	December 18, 2020	January 8, 2021	January 29, 2021	0.08
Cash	December 18, 2020	January 15, 2021	February 9, 2021	0.04
Cash	December 18, 2020	January 8, 2021	January 29, 2021	0.04

As of December 31, 2020 and 2019, unpaid cash dividends on common shares amounting to P2.2 billion and P1.3 billion, respectively, are included as part of as "Accounts payable and accrued expenses" account in the consolidated statements of financial position (see Note 16).

### Non-controlling Interests

For the years ended December 31, 2020, and 2019, movements in NCI pertain to the share in net earnings of and dividends paid to non-controlling shareholders, and NCI on business combinations.

The following table summarizes the financial information of subsidiaries that have material non-controlling interests:

This information is based on amounts before inter-company eliminations.

<i>(In thousands)</i>	2020		2019	
	PPCI	CHC	PPCI	CHC
<b>NCI percentages</b>	<b>51%</b>	<b>10%</b>	<b>51%</b>	<b>10%</b>
<b>Carrying amounts of NCI</b>	<b>P34,826,274</b>	<b>P727,708</b>	<b>P31,469,630</b>	<b>P776,994</b>
Current assets	P59,475,057	P12,046,531	P40,040,355	P12,242,909
Noncurrent assets	72,205,359	-	68,594,443	-
Current liabilities	17,102,485	4,769,453	15,490,809	4,472,966
Noncurrent liabilities	46,076,211	-	31,244,639	-
<b>Net assets</b>	<b>P68,501,720</b>	<b>P7,277,078</b>	<b>P61,899,350</b>	<b>P7,769,943</b>
<b>Net income attributable to NCI</b>	<b>P4,101,176</b>	<b>P7,556</b>	<b>P3,454,122</b>	<b>P301,582*</b>
<b>Other comprehensive attributable to NCI</b>	<b>(P88,005)</b>	<b>P -</b>	<b>(P111,829)</b>	<b>P -</b>
<b>Revenue</b>	<b>P168,632,329</b>	<b>P237,044</b>	<b>P154,490,309</b>	<b>P -</b>
Net income	P8,066,828	P75,557	P6,772,788	P7,993,116
Other comprehensive loss	(173,102)	-	(219,273)	-
<b>Total comprehensive income</b>	<b>P7,893,726</b>	<b>P75,557</b>	<b>P6,553,515</b>	<b>P7,993,116</b>
Net cash flows provided by (used in):				
Operating	P14,702,750	P75,557	P15,072,887	P -
Investing	(5,755,872)	-	(3,772,907)	11,980,106
Financing	6,693,756	-	(4,903,880)	-
<b>Net increase in cash and cash equivalents</b>	<b>P15,640,634</b>	<b>P75,557</b>	<b>P6,396,100</b>	<b>P11,980,106</b>

\*Adjusted for the share in income in LPC and CHPI recognized from date of acquisition to date of sale and other eliminating adjustment.

## 29. Segment Information

Segment information reported externally was analyzed on the basis of types of goods supplied and services provided by the Group's operating divisions. However, information reported to the Group's chief operating decision maker for the purposes of resource allocation and assessment of segment performance is more specifically focused on the types of goods or services delivered or provided. The Group's reportable segments are as follows:

Grocery retail	Includes selling of purchased goods to a retail market
Specialty retail	Includes selling of office supplies both on wholesale and retail business and import, export, storage and transshipment of LPG, filling and distributions of LPG cylinders as well as distributions to industrials, wholesale and other customers.
Liquor distribution	Includes selling of purchased goods based on a distributorship channel to a wholesale market
Real estate and property leasing	Includes real estate activities such as selling and leasing of real properties
Oil and mining	Includes exploration, development and production of oil, gas, metallic and nonmetallic reserves

The following segment information does not include any amounts for discontinued operations.

Information regarding the Group's reportable segments is presented hereunder:

## Segment Revenue and Results

The following is an analysis of the Group's revenue and results from continuing operations by reportable segment:

(In thousands)	Segment Revenues			Segment Profit		
	2020	2019	2018	2020	2019	2018
Grocery retail	P168,632,329	P154,490,309	P141,139,261	P8,066,828	P6,772,788	P6,199,500
Liquor distribution	8,167,404	10,717,397	8,747,207	1,179,844	1,212,453	738,366
Specialty retail	1,671,656	2,451,217	19,179,888	55,817	97,033	691,815
Real estate and property leasing	1,696,027	2,146,777	2,030,790	699,556	1,225,477	1,085,959
Holding, oil and mining	-	-	-	1,343,392	9,397,287	403,650
Total	180,167,416	169,805,700	171,097,146	11,345,437	18,705,038	9,119,290
Eliminations of intersegment revenue/profit	2,851,117	3,738,988	2,886,789	1,336,511	3,311,831	637,486
	P177,316,299	P166,066,712	P168,210,357	P10,008,926	P15,393,207	P8,481,804

Revenue reported above represents revenue generated from external customers and inter-segment sales and is broken down as follows:

(In thousands)	2020	2019	2018
Grocery retail:			
From external customers	P168,632,329	P154,490,309	P141,139,261
Liquor distribution:			
From external customers	5,949,178	7,630,100	6,514,654
From intersegment sales	2,218,226	3,087,297	2,232,553
	8,167,404	10,717,397	8,747,207
Specialty retail:			
From external customers	1,669,050	2,447,877	19,176,554
From intersegment sales	2,606	3,340	3,334
	1,671,656	2,451,217	19,179,888
Real estate and property leasing:			
From external customers	1,065,742	1,498,426	1,379,888
From intersegment sales	630,285	648,351	650,902
	1,696,027	2,146,777	2,030,790
Oil and mining:			
From external customers	-	-	-
Total revenue from external customers	P177,316,299	P166,066,712	P168,210,357
Total intersegment revenue	P2,851,117	P3,738,988	P2,886,789

No single customer contributed 10% or more to the Group's revenue in 2020, 2019 and 2018.

The Group's reportable segments are all domestic operations.

### Segment Assets and Liabilities

Below is the analysis of the Group's segment assets and liabilities:

<i>(In thousands)</i>	<b>2020</b>	2019	2018
Segment assets:			
Grocery retail	<b>P131,593,509</b>	P108,634,798	P100,849,855
Specialty retail	<b>1,191,517</b>	1,225,214	6,619,617
Liquor distribution	<b>8,739,767</b>	8,776,038	7,240,181
Real estate and property leasing	<b>25,596,172</b>	25,651,342	24,723,835
Oil and mining	<b>106,061,232</b>	105,902,079	96,874,958
Total segment assets	<b>273,182,197</b>	250,189,471	236,308,446
Intercompany assets	<b>94,992,373</b>	95,739,577	96,770,905
Total assets	<b>P178,189,824</b>	P154,449,894	P139,537,541
Segment liabilities:			
Grocery retail	<b>P63,090,940</b>	P46,735,448	P47,838,033
Specialty retail	<b>792,646</b>	2,475,886	2,363,770
Liquor distribution	<b>2,273,073</b>	3,299,462	3,033,318
Real estate and property leasing	<b>8,995,981</b>	9,403,470	9,636,227
Oil and mining	<b>11,285,978</b>	10,531,184	8,974,933
Total segment liabilities	<b>86,438,618</b>	72,445,450	71,846,281
Intercompany liabilities	<b>18,028,122</b>	20,056,340	17,433,309
Total liabilities	<b>P68,410,496</b>	P52,389,110	P54,412,972

### **30. Earnings Per Share**

The following table presents information necessary to calculate EPS on net income attributable to equity holders of the Parent Company:

<i>(In thousands except per share data)</i>	<b>2020</b>	2019	2018
Net income attributable to equity holders of the Parent Company (a)	<b>P5,900,195</b>	P11,597,381	P5,381,485
Weighted average number of common shares (b)	<b>7,054,850</b>	7,010,161	7,083,275
Basic/diluted EPS (a/b)	<b>P0.84</b>	P1.65	P0.76

There were no potential dilutive common shares in 2020, 2019 and 2018.

The weighted average number of shares takes into account the weighted average effect of changes in treasury shares transaction during the year.

### **31. Financial Risk and Capital Management Objectives and Policies**

#### Objectives and Policies

The Group has significant exposure to the following financial risks primarily from its use of financial instruments:

- Credit Risk
- Liquidity Risk
- Interest Rate Risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risks, and the Group's management of capital.

The Group's principal financial instruments include cash and cash equivalents and investments in trading securities. These financial instruments are used to fund the Group's operations and capital expenditures.

The BOD has overall responsibility for the establishment and oversight of the Group's risk management framework. They are responsible for developing and monitoring the Group's risk management policies.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. All risks faced by the Group are incorporated in the annual operating budget. Mitigating strategies and procedures are also devised to address the risks that inevitably occur so as not to affect the Group's operations and detriment forecasted results. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

#### Credit Risk

Credit risk represents the risk of loss the Group would incur if credit customers and counterparties fail to perform their contractual obligations.

Exposure to credit risk is monitored on an ongoing basis. Credit is not extended beyond authorized limits. Credit granted is subject to regular review, to ensure it remains consistent with the customer's credit worthiness and appropriate to the anticipated volume of business.

Receivable balances are being monitored on a regular basis to ensure timely execution of necessary intervention efforts.

The credit risk for due from related parties and security deposits was considered negligible since these accounts have high probability of collection and there is no current history of default.

Financial information on the Group's maximum exposure to credit risk without considering the effects of collaterals and other risk mitigation techniques is presented below.

<i>(In thousands)</i>	<i>Note</i>	<b>2020</b>	<b>2019</b>
Cash and cash equivalents <sup>(1)</sup>	4	<b>P48,085,044</b>	P23,015,623
Receivables - net	5	<b>10,308,181</b>	16,637,892
Financial assets at FVPL	7	<b>2,411,375</b>	34,921
Security deposits <sup>(2)</sup>	15	<b>2,260,918</b>	2,231,789
Due from related parties	25	<b>184,852</b>	192,068
Financial assets at FVOCI	8	<b>16,860</b>	17,704
		<b>P63,267,230</b>	<b>P42,129,997</b>

<sup>(1)</sup> Excluding cash on hand.

<sup>(2)</sup> Included as part of "Other noncurrent assets"



Financial information on the Group's maximum exposure to credit risk without considering the effects of collaterals and other risk mitigation techniques is presented below.

<i>(In thousands)</i>	December 31, 2020			
	Grade A	Grade B	Grade C	Total
<b>Financial Assets at Amortized Cost</b>				
Cash and cash equivalents <sup>(1)</sup>	P48,085,044	P -	P -	P48,085,044
Receivables	8,051,166	2,190,085	66,930	10,308,181
Due from related parties	184,852	-	-	184,852
Security deposits <sup>(2)</sup>	-	2,260,918	-	2,260,918
<b>Financial Assets at FVPL</b>				
Investments in trading securities	2,411,375	-	-	2,411,375
<b>Financial Assets at FVOCI</b>				
Investments in preferred shares	7,262	-	-	7,262
Investment in common shares				
Quoted	7,294	-	-	7,294
Unquoted	2,304	-	-	2,304
	<b>P58,749,297</b>	<b>P4,451,003</b>	<b>P66,930</b>	<b>P63,267,230</b>

<sup>(1)</sup> Excluding cash on hand.

<sup>(2)</sup> Included as part of "Other noncurrent assets".

<i>(In thousands)</i>	December 31, 2019			
	Grade A	Grade B	Grade C	Total
<b>Financial Assets at Amortized Cost</b>				
Cash and cash equivalents <sup>(1)</sup>	P23,015,623	P -	P -	P23,015,623
Receivables	14,194,010	2,394,935	48,947	16,637,892
Due from related parties	192,068	-	-	192,068
Security deposits <sup>(2)</sup>	-	2,231,789	-	2,231,789
<b>Financial Assets at FVPL</b>				
Investments in trading securities	34,921	-	-	34,921
<b>Financial Assets at FVOCI</b>				
Investments in preferred shares	7,262	-	-	7,262
Investment in common shares				
Quoted	8,138	-	-	8,138
Unquoted	2,304	-	-	2,304
	<b>P37,454,326</b>	<b>P4,626,724</b>	<b>P48,947</b>	<b>P42,129,997</b>

<sup>(1)</sup> Excluding cash on hand.

<sup>(2)</sup> Included as part of "Other noncurrent assets".

The Group has assessed the credit quality of the following financial assets that are neither past due nor impaired as high grade:

- a. Cash in banks and cash equivalents and short-term investments were assessed as high grade since these are deposited in reputable banks with good credit standing, which have a low probability of insolvency and can be withdrawn anytime. The credit risk for investment in debt securities are considered negligible, since the counterparties are reputable entities with high external credit ratings. The credit quality of these financial assets is considered to be high grade.
- b. Trade receivables were assessed as high grade since majority of trade receivables are credit card transactions and there is no current history of default. Non-trade receivables from suppliers relating to rental, display allowance and concession and advances to contractors were assessed as high grade since these are automatically deducted from the outstanding payables to suppliers and contractors. Advances to employees were assessed as high grade as these are paid through salary deductions and have a high probability of collections.
- c. Financial assets at fair value through profit or loss were assessed as high grade since these are government securities and placed in entities with good favorable credit standing.



- d. Security deposits were assessed as high grade since these have a high profitability of collection and there is no history of default.
- e. Due from related parties and security deposits were assessed as high grade since these have a high profitability of collection and there is no history of default.

The Group applies the simplified approach using provision matrix in providing for ECL which permits the use of the lifetime expected loss provision for trade and other receivables. The expected loss rates are based on the Group's historical observed default rates. The historical rates are adjusted to reflect current and forward looking macroeconomic factors affecting the customer's ability to settle the amount outstanding. However, given the short period exposed to credit risk, the impact of this macroeconomic factor identified has not been considered significant within the reporting period.

### Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages liquidity risk by forecasting projected cash flows and maintaining balance between continuity of funding and flexibility in operations. Treasury controls and procedures are in place to ensure that sufficient cash is maintained to cover daily operational working capital requirements. Management closely monitors the Group's future and contingent obligations and sets up required cash reserves as necessary in accordance with internal requirements.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

	December 31, 2020				
<i>(In thousands)</i>	Carrying Amount	Contractual Cash Flow	1 Year or Less	More than 1 Year to 5 Years	More than 5 Years
<b>Other Financial Liabilities</b>					
Accounts payable and accrued expenses <sup>(1)</sup>	P15,934,243	P15,934,243	P15,934,243	P -	P -
Short-term loans	42,000	42,000	42,000	-	-
Lease liabilities	30,184,370	46,284,125	2,626,930	10,543,066	33,114,129
Due to related parties	762,031	762,031	762,031	-	-
Long-term loans <sup>(2)</sup>	16,569,700	16,569,700	395,338	168,550	16,005,812
Customers' deposits <sup>(3)</sup>	684,436	684,436	365,753	239,012	79,671
	<b>P64,176,780</b>	<b>P80,276,535</b>	<b>P20,126,295</b>	<b>P10,950,628</b>	<b>P49,199,612</b>

<sup>(1)</sup> Excluding due to government agencies.

<sup>(2)</sup> Including current and non-current portion.

<sup>(3)</sup> Including current and non-current portion.

	December 31, 2019				
<i>(In thousands)</i>	Carrying Amount	Contractual Cash Flow	1 Year or Less	More than 1 Year to 5 Years	More than 5 Years
<b>Other Financial Liabilities</b>					
Accounts payable and accrued expenses <sup>(1)</sup>	P14,383,106	P14,383,106	P14,383,106	P -	P -
Short-term loans	871,124	871,124	871,124	-	-
Lease liabilities	26,668,941	26,666,941	567,652	2,838,260	23,263,029
Due to related parties	1,343,460	1,343,460	1,343,460	-	-
Long-term loans <sup>(2)</sup>	5,138,262	5,138,262	43,685	5,094,577	-
Customers' deposits <sup>(3)</sup>	638,032	638,032	351,509	214,892	71,631
	<b>P49,042,925</b>	<b>P49,042,925</b>	<b>P17,560,536</b>	<b>P8,147,729</b>	<b>P23,334,660</b>

<sup>(1)</sup> Excluding due to government agencies.

<sup>(2)</sup> Including current and non-current portion.

<sup>(3)</sup> Including current and non-current portion.

### Market Risk

Market risk is the risk that changes in market prices such as interest rates that will adversely affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. The Group is mainly subject to interest rate risks.

### *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 Group may be exposed to interest rate risk on interest earned on cash deposits in banks which have variable rates exposing the Group further to cash flow interest rate risk. However, the management believes that the Group is not significantly exposed to interest rate risk since its short and long-term loans have fixed rates and are carried at amortized cost.

The Group's policy is to obtain the most favorable interest available without increasing its interest rate risk exposure.

### Capital Management

The Group's objectives when managing capital are to increase the value of shareholders' investment and maintain steady growth by applying free cash flow to selective investments. The Group set strategies with the objective of establishing a versatile and resourceful financial management and capital structure.

The Group's President has overall responsibility for monitoring of capital in proportion to risk. Profiles for capital ratios are set in the light of changes in the Group's external environment and the risks underlying the Group's business operations and industry.

The Group defines capital as paid-up capital, additional paid-in capital, remeasurements and retained earnings as shown in the consolidated statements of financial position.

There were no changes in the Group's approach to capital management during the year.

The Parent Company maintains equity at a level that is compliant with its loan covenants.

The Group is not subject to externally imposed requirements.

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

The carrying values of the Group's financial instruments approximate fair values as at December 31, 2020 and 2019.

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

### *Cash and Cash Equivalents, Short-term Investments, Receivables, Due from Related Parties*

The carrying amounts approximate their fair values due to the relatively short-term maturities of these instruments.

#### *Security Deposits*

The carrying amount approximates its fair value as the effect of discounting is not considered material.

#### *Financial Assets at FVPL (Level 2)*

The fair values are based on observable market inputs for government securities and quoted market prices in an active market for equity securities.

#### *Financial Assets at FVOCI - Quoted (Level 1)*

The fair values of financial assets at FVPL and quoted financial assets at FVOCI and similar investments are based on quoted market prices in an active market.

#### *Financial Assets at FVOCI - Unquoted*

The fair value of the unquoted equity securities at FVOCI is not determinable because of the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value.

#### *Accounts Payable and Accrued Expenses, Short-term Loans and Due to Related Parties*

The carrying amounts of accounts payable and accrued expenses, short-term loans, due to related parties and customers' deposits approximate the fair value due to the relatively short-term maturities of these financial instruments.

#### *Long-term Loans, Lease Liabilities and Customers' Deposits*

The carrying amounts approximate their fair values because the difference between the interest rates of these instruments and the prevailing market rates for similar instruments is not considered significant.

#### Fair Value Hierarchy

The Group analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

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

As at December 31, 2020 and 2019, the Group's financial assets at FVPL for equity securities, and quoted equity investments at OCI are classified as Level 1 while financial assets at FVPL for government securities are classified as Level 2.

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### **33. Sale of Subsidiaries**

On October 19, 2018, Canaria Holdings, Inc., a 90%-owned subsidiary of Cosco, the Parent Company executed a Share Purchase Agreement (SPA) with Fernwood Holdings, Inc. for the sale of its entire equity interests in LPC and CPHI.

The Philippine Competition Commission subsequently granted its approval to the share purchase transaction on January 17, 2019, which paved the way for the completion and closing of the transaction between the parties on October 19, 2018.

The breakdown of the gain on sale recognized in profit or loss in 2019 is as follows:

<i>(In thousands)</i>	2019
Selling price	P13,100,000
Transaction costs	(1,729,020)
Proceeds	11,370,980
Cost of investment	(3,428,451)
Gain on sale before the effect of share in income recognized	7,942,529
Share in income recognized (date of acquisition to date of sale)	(1,868,924)
Gain on sale	P6,073,605

The major classes of assets and liabilities of both LPC and CPHI as at December 31, 2018 are as follows:

<i>(In thousands)</i>	LPC	CPHI	Total
Cash and cash equivalents	P1,063,107	P24	P1,063,131
Receivables - net	990,137	-	990,137
Due from related parties	49,781	-	49,781
Inventories	527,329	-	527,329
Prepaid expenses and other current assets	11,782	-	11,782
Property and equipment - net	2,424,343	-	2,424,343
Investments	90,906	44,222	135,128
Investment properties - net	108,356	-	108,356
Goodwill and intangibles	1,632,160	51,432	1,683,592
Deferred tax assets - net	87,898	-	87,898
Other non-current assets	239,418	-	239,418
Assets classified as held for sale	7,225,217	95,678	7,320,895
Accounts payable, accrued expenses and other liabilities	1,640,316	402	1,640,718
Income tax payable	91,559	-	91,559
Current maturities of long-term debt, net of debt issue costs	-	16,951	16,951
Due to related parties	41,252	21,485	62,737
Retirement benefits liability	22,686	-	22,686
Liabilities related to assets held for sale	1,795,813	38,838	1,834,651
Net assets classified as held for sale	P5,429,404	P56,840	P5,486,244

No impairment loss was recognized on reclassification of the land as held for sale nor at the end of the reporting period.

The results of operations of LPC and CPHI in 2018 are as follows:

<i>(In thousands)</i>	LPC	CPHI	Total
Revenue	P17,090,512	P -	P17,090,512
Cost of sales	15,811,326	-	15,811,326
Gross profit	1,279,186	-	1,279,186
Operating expenses	391,671	88	391,759
Income from operations	887,515	(88)	887,427
Other income charges:			
Interest expense	(5,690)	(847)	(6,537)
Interest income	3,750	-	3,750
Others- net	10,279	406	10,685
Income before income tax	895,854	(529)	895,325
Income tax expense	269,624	-	269,624
Net income (loss)	P626,230	(P529)	P625,701

### 34. Events After Reporting Period

#### Share Swap Transaction

On a special meeting on February 22, 2021, the Board of Directors of Cosco Capital, Inc. has approved the acquisition of controlling interest in Da Vinci Capital Holdings, Inc. ("DAVIN") by way of share-swap transaction, wherein the latter shall issue 11.25 billion common shares of stock valued at P2 per share, to Cosco Capital, Inc., and in exchange and as consideration thereof, Cosco shall assign 100% of its shares in the following subsidiaries in favor of DAVIN:

- Montosco, Inc.; ("Montosco")
- Meritus Prime Distributions, Inc. ("Meritus")
- Premier Wine and Spirits, Inc. ("Premier")

#### Corporate Recovery and Tax Incentives for Enterprise Act (CREATE) Bill

On March 26, 2021, the President of the Philippines has approved the Corporate Recovery and Tax Incentives for Enterprises or the CREATE Act, with nine (9) provisions vetoed by the President. Below are the salient features of the Act that are relevant to the Group.

- a) Corporate income tax rate is reduced from 30% to 20% for domestic corporations with net taxable income not exceeding P5.0 million and with total assets not exceeding P100.0 million. All other domestic corporations and resident foreign corporations will be subject to 25% income tax. Said reductions are effective July 1, 2020.
- b) Minimum corporate income tax (MCIT) rate is reduced from 2% to 1% effective July 1, 2020 to June 30, 2023.

On April 8, 2021, the Bureau of Internal Revenue issued the following implementing revenue regulations that are effective immediately upon publication:

- BIR RR No. 2-2021, Amending Certain Provisions of Revenue Regulations No. 2-98, As Amended, to Implement the Amendments Introduced by Republic Act No. 11534, or the "Corporate Recovery and Tax Incentives for Enterprises Act" (CREATE), to the National Revenue Code of 1997, as Amended, Relative to the Final Tax on Certain Passive Income

- BIR RR No. 3-2021, Rules and Regulations Implementing Section 3 of Republic Act (RA). No. 11534, Otherwise Known as the “Corporate Recovery and Tax Incentives for Enterprises Act” or “CREATE”, Amending Section 20 of the National Internal Revenue Code of 1997, As Amended
- BIR RR No. 4-2021, Implementing the Provisions on Value-Added Tax (VAT) and Percentage Tax Under Republic Act (RA) No. 11534, Otherwise Known as the “Corporate Recovery and Tax Incentives for Enterprises Act” (CREATE) Which Further Amended the National Revenue Code of 1997, as Amended, as Implemented by Revenue Regulations (RR) No. 16-2005 (Consolidated Value-Added Tax Regulations of 2005), As Amended
- BIR RR No. 5-2021, Implementing the New Income Tax Rates on the Regular Income of Corporations, on Certain Passive Incomes, Including Additional Allowable Deductions from Gross Income of Persons Engaged in Business or Practice of Profession Pursuant to Republic Act (RA) No. 11534 or the “Corporate Recovery and Tax Incentives for Enterprises Act” (CREATE), Which Further Amended the National Revenue Code (NIRC) of 1997

The enactment of the CREATE Law is a non-adjusting subsequent event thus, the current and deferred income taxes as of December 31, 2020 are measured using the applicable income tax rates as of December 31, 2020.

Further, the Bureau of Internal Revenue has issued its Revenue Regulation No. 5-2021 to promulgate the implementation of the new income tax rates on the regular income of corporations, on certain passive incomes and additional allowable deductions of persons engaged in business or practice of profession as provided for in CREATE Law. The corporate income tax of the Group will be lowered from 30% to 25% for large corporations on which the Group would qualify, effective July 1, 2020.

Presented below is the estimated effect of changes in tax rates under the CREATE Act.

	As at December 31, 2020	Effect of Changes in Tax Rates	Amounts Based on the Reduced Tax Rates
<b>Statement of Comprehensive Income</b>			
Current tax expense	P4,180,890	(P348,408)	P3,832,483
Deferred tax expense (benefit)	(356,283)	(29,690)	(326,593)
Net income for the year	10,008,926	(378,025)	9,630,828
<b>Statement of Financial Position</b>			
Deferred tax asset	902,719	(150,453)	752,266
Income tax payable	1,534,051	(348,408)	1,185,644
Deferred tax liability	144,588	(24,098)	120,490
<b>Statement of Changes in Equity</b>			
Retirement Benefits Reserve	(82,145)	13,691	(68,454)





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**REPORT OF INDEPENDENT AUDITORS  
TO ACCOMPANY SUPPLEMENTARY INFORMATION FOR FILING  
WITH THE SECURITIES AND EXCHANGE COMMISSION**

The Board of Directors and Stockholders  
**Cosco Capital, Inc. and Subsidiaries**  
900 Romualdez Street  
Paco, Manila

We have audited, in accordance with Philippine Standards on Auditing, the financial statements of **Cosco Capital, Inc. and Subsidiaries** (the "Group") as at and for the year ended December 31, 2020, on which we have rendered our report dated May 5, 2021.

- Supplementary Schedules of Annex 68-E
- Map of Conglomerate
- Reconciliation of Retained Earnings Available for Dividend declaration of the Company

Our audit was made for the purpose of forming an opinion on the basic financial statements of the Group taken as a whole. The supplementary information is the responsibility of the Group's management.

Firm Regulatory Registration & Accreditation:  
PRC-BOA Registration No. 0003, valid until November 21, 2023  
SEC Accreditation No. 0003-SEC, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by SEC Accreditation No. 0004-FR-5)  
IC Accreditation No. 0003-IC, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by IC Circular Letter (CL) No. 2019-39, Transition clause)  
BSP Accreditation No. 0003-BSP, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by BSP Monetary Board Resolution No. 2161, Transition clause)



This supplementary information is presented for purposes of complying with the Revised Securities Regulation Code (SRC) Rule 68 and is not a required part of the basic financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

**R.G. MANABAT & CO.**

DINDO MARCO M. DIOSO

Partner

CPA License No. 0095177

SEC Accreditation No. 95177-SEC, Group A, valid for five (5) years  
covering the audit of 2019 to 2023 financial statements

Tax Identification No. 912-365-765

BIR Accreditation No. 08-001987-030-2019

Issued August 7, 2019; valid until August 6, 2022

PTR No. MKT 8533899

Issued January 4, 2021 at Makati City

May 5, 2021

Makati City, Metro Manila



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**REPORT OF INDEPENDENT AUDITORS  
TO ACCOMPANY SUPPLEMENTARY INFORMATION FOR FILING  
WITH THE SECURITIES AND EXCHANGE COMMISSION**

The Board of Directors and Stockholders  
**Cosco Capital, Inc. and Subsidiaries**  
900 Romualdez Street  
Paco, Manila

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Cosco Capital, Inc. and Subsidiaries (the "Group") as at and for the years ended December 31, 2020 and 2019 and have issued our report thereon dated May 5, 2021.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The Supplementary Schedule of Financial Soundness Indicators, including their definitions, formulas, calculations, and their appropriateness or usefulness to the intended users, are the responsibility of the Group's management. These financial soundness indicators are not measure of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies.

Firm Regulatory Registration & Accreditation:  
PRC-BOA Registration No. 0003, valid until November 21, 2023  
SEC Accreditation No. 0003-SEC, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by SEC Accreditation No. 0004-FR-5)  
IC Accreditation No. 0003-IC, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by IC Circular Letter (CL) No. 2019-39, Transition clause)  
BSP Accreditation No. 0003-BSP, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by BSP Monetary Board Resolution No. 2161, Transition clause)



This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission and is not a required part of the consolidated financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Group's consolidated financial statements as at and for the years ended December 31, 2020 and 2019 and no material exceptions were noted (see Annex A).

**R.G. MANABAT & CO.**

DINDO MARCO M. DIOSO

Partner

CPA License No. C095177

SEC Accreditation No. 95177-SEC, Group A, valid for five (5) years  
covering the audit of 2019 to 2023 financial statements

Tax Identification No. 912-365-765

BIR Accreditation No. 08-001987-030-2019

Issued August 7, 2019; valid until August 6, 2022

PTR No. MKT 8533899

Issued January 4, 2021 at Makati City

May 5, 2021

Makati City, Metro Manila

**Cosco Capital Inc. and Subsidiaries**  
**As of December 31, 2020**

Ratio	Formula	Years ended December 31	
		2020	2019
Current ratio	Total Current Assets divided by Total Current Liabilities  <div style="display: flex; justify-content: space-between;"> <div>Total current assets</div> <div>P88,145,784</div> </div> <div style="display: flex; justify-content: space-between;"> <div>Divide by: Total current liabilities</div> <div>24,469,690</div> </div> <hr style="width: 100%;"/> <div style="text-align: right;">3.60</div>	3.60	3.45
Acid-test ratio	Quick assets (Total Current Assets less Inventories and Other Current Assets) divided by Total Current Liabilities  <div style="display: flex; justify-content: space-between;"> <div>Total current assets</div> <div>P88,145,784</div> </div> <div style="display: flex; justify-content: space-between;"> <div>Less: Inventories</div> <div>24,914,272</div> </div> <div style="display: flex; justify-content: space-between;"> <div>Other current assets</div> <div>1,450,993</div> </div> <hr style="width: 100%;"/> <div style="display: flex; justify-content: space-between;"> <div>Quick assets</div> <div>61,780,519</div> </div> <div style="display: flex; justify-content: space-between;"> <div>Divide by: Total current liabilities</div> <div>24,469,690</div> </div> <hr style="width: 100%;"/> <div style="text-align: right;">2.52</div>	2.52	2.09
Solvency ratio	Solvency ratio (Profit plus depreciation and amortization over total liabilities)  <div style="display: flex; justify-content: space-between;"> <div>Net income</div> <div>P10,008,926</div> </div> <div style="display: flex; justify-content: space-between;"> <div>Add: Depreciation and amortization</div> <div>4,195,584</div> </div> <hr style="width: 100%;"/> <div style="display: flex; justify-content: space-between;"> <div>Total</div> <div>14,204,510</div> </div> <div style="display: flex; justify-content: space-between;"> <div>Divide by: Total liabilities</div> <div>68,410,496</div> </div> <hr style="width: 100%;"/> <div style="text-align: right;">0.21</div>	0.21	0.36
Debt-to-equity ratio	Debt-to equity ratio (Total liabilities over total equity)  <div style="display: flex; justify-content: space-between;"> <div>Total liabilities</div> <div>P68,410,496</div> </div> <div style="display: flex; justify-content: space-between;"> <div>Divide by: Total equity</div> <div>109,779,328</div> </div> <hr style="width: 100%;"/> <div style="text-align: right;">0.62</div>	0.62	0.51
Asset-to-equity ratio	Asset-to-equity ratio (Total assets over total equity)  <div style="display: flex; justify-content: space-between;"> <div>Total assets</div> <div>P178,189,824</div> </div> <div style="display: flex; justify-content: space-between;"> <div>Divide by: Total equity</div> <div>109,779,328</div> </div> <hr style="width: 100%;"/> <div style="text-align: right;">1.62</div>	1.62	1.51



Ratio	Formula	Years ended December 31	
		2020	2019
Interest rate coverage ratio	Interest rate coverage ratio (Profit before interest and taxes over interest expense)  Profit before interest and taxes P16,032,103 Divide by interest expense 2,198,570 <hr/> 7.29	7.29	10.11
Return on equity	Return on Equity (Net Income by Total Equity)  Net income P10,008,926 Divide by: Total equity 109,779,328 <hr/> 9%	9%	15%
Return on assets	Return on Assets (Net Income by Total Assets)  Net income P10,008,926 Divide by: Total assets 178,189,824 <hr/> 6%	6%	10%
Net profit margin	Net profit margin (Profit over net sales)  Net income P10,008,926 Divide by: Net sales 177,316,299 <hr/> 5.64%	5.64%	9.27%
Other ratios	Operating profit margin (Operating profit over net sales)  Operating profit P15,305,300 Divide by: Net sales 177,316,299 <hr/> 8.63%	8.63%	8.43%

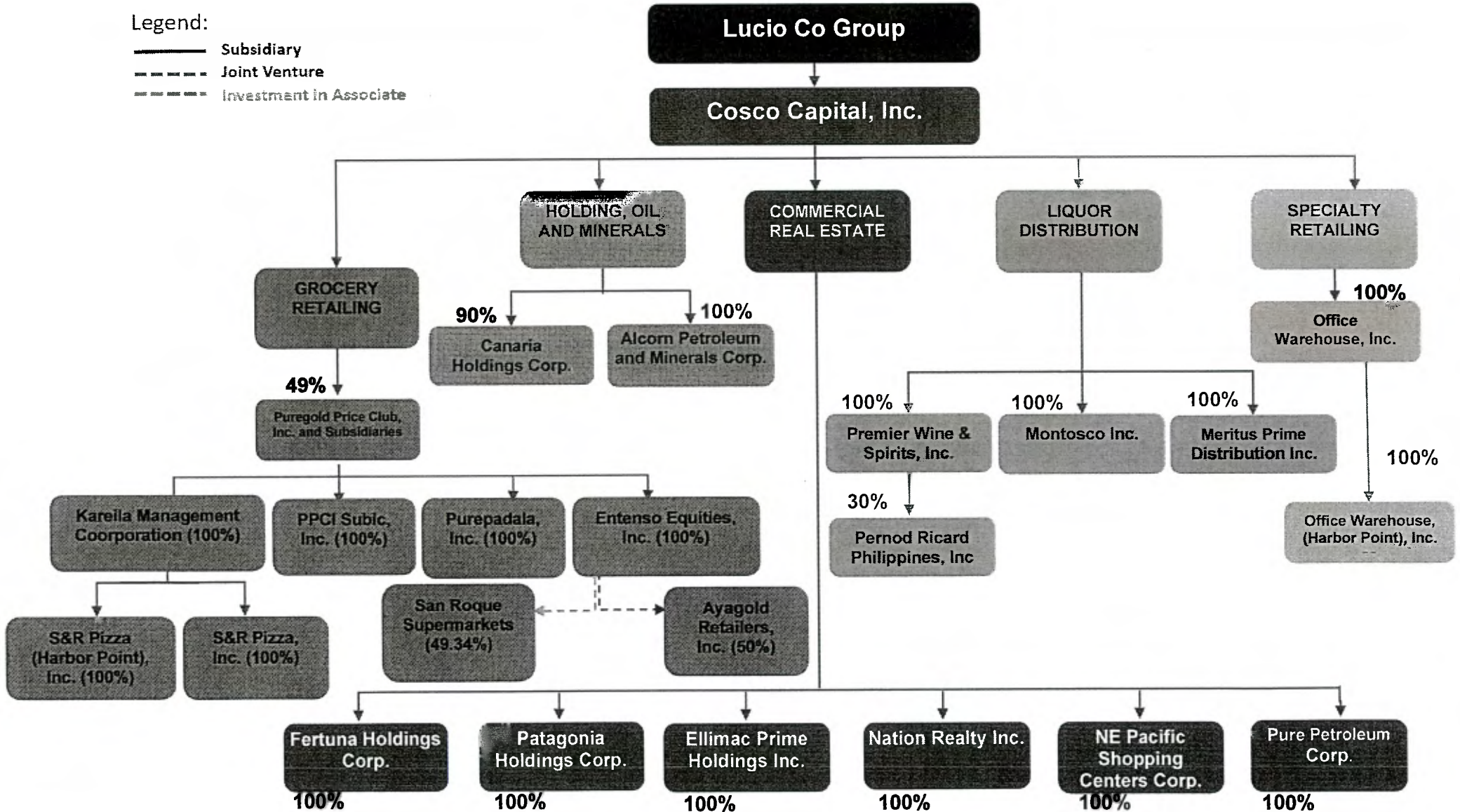


# COSCO CAPITAL, INC. AND SUBSIDIARIES

Map of Group of Companies Within which the Company Belongs  
As at December 31, 2020

**Legend:**

- Subsidiary
- - - - - Joint Venture
- · - · - Investment in Associate



**COSCO CAPITAL, INC.**  
**SCHEDULE OF RECONCILIATION OF RETAINED EARNINGS AVAILABLE**  
**FOR DIVIDEND DECLARATION**  
**For the Year Ended December 31, 2020**  
**(Amounts in Thousands)**

*Figures are based from Parent  
Company's Financial  
Statements*

Unappropriated Retained Earnings, as adjusted, beginning		P1,327,066
Adjustments in previous year's reconciliation		<b>(1,124,149)</b>
Unappropriated Retained Earnings, as adjusted, beginning		<b>(202,917)</b>
Net Income based on the face of audited financial statements	P1,440,988	
Add: Non-actual losses		
Deferred tax expense	448	
Net income actually earned during the period		<b>1,440,540</b>
Add (Less):		
Dividends declared during the year		<b>(1,151,721)</b>
Additions to treasury shares		<b>(248,887)</b>
Unappropriated Retained Earnings, as adjusted, ending		<b>P242,849</b>

**COSCO CAPITAL, INC. AND SUBSIDIARIES**

**SCHEDULE A. FINANCIAL ASSETS**

**(Amounts in Thousands, except Number of Shares Principal amounts of Bonds and Notes)**

Name of Issuing entity and association of each issue	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet	Valued based on market quotation at balance sheet date	Income received and accrued
Cash in banks and cash equivalents - various banks	N/A	P48,085,044	P48,085,044	P696,110*
Receivables - net - various creditors debtors	N/A	10,308,181	10,308,181	237,045
Government securities - Bureau of Treasury	2,290,000,000	2,383,862	2,383,862	2,538**
Financial assets at FVPL - various Publicly-listed Companies	1,002,192	27,513	27,513	(7,407)**
Financial assets at FVOCI - various Publicly-listed Companies	95,999	16,860****	16,860	652***
Due from related parties - Related parties outside the Group	N/A	184,852	184,852	-
Security deposits - various lessors	N/A	2,260,918	2,260,918	-
		P63,267,230	P63,267,230	P928,938

**Notes:**

\*This represents interest income earned, net of final tax

\*\* This represents unrealized valuation (loss) on trading securities

\*\*\*This represents dividend income

\*\*\*\*P8,495 is presented as part of "Other Noncurrent Assets" in Balance Sheet

**COSCO CAPITAL, INC. AND SUBSIDIARIES**

**SCHEDULE B. AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN AFFILIATES)**  
**(Amounts in Thousands)**

Name and Designation of Debtor	Balance at Beginning of Period	Additions	Amounts Collected	Amounts Written Off	Current	Not Current	Balance at End of Period
Lucio L. Co - Chairman	P192,068	P826,132	P668,884	P -	P349,316	P -	P349,316
Various Employees	12,758	6,545	8,170	-	11,133	-	11,133
	P204,826	P832,677	P677,054	P -	P360,449	P -	P360,449

**COSCO CAPITAL, INC. AND SUBSIDIARIES**

**SCHEDULE C. AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF SEPARATE FINANCIAL STATEMENTS  
(Amount in Thousands)**

Name and Designation of debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written off	Current	Not Current	Balance at end of period
<b>Advances</b>							
Premier Wines and Spirits, Inc.	P86,000	P -	P86,000	P -	P -	P -	P -
Ellimac Prime Holdings, Inc.	3,934,975	-	207,781	-	3,727,194	-	3,727,194
Fertuna Holdings Corporation	104,441	-	-	-	104,441	-	104,441
Patagonia Holdings Corporation	917,808	-	-	-	917,808	-	917,808
Nation Realty, Inc.	300,966	-	-	-	300,966	-	300,966
Alcom Petroleum and Minerals Corporation	390,017	-	3,774	-	386,243	-	386,243
Kareila Management Corporation	500,000	-	500,000	-	-	-	-
Canaria Holdings Corporation	74,641	-	74,641	-	-	-	-
<b>Dividends</b>							
Puregold Price Club, Inc.	564,347	634,890	564,347	-	634,890	-	634,890
NE Pacific Shopping Centers Corp.	140,000	-	100,000	-	40,000	-	40,000
Nation Realty, Inc.	179,714	-	70,000	-	109,714	-	109,714
Patagonia Holdings Corporation	260,000	-	-	-	260,000	-	260,000
Ellimac Prime Holdings, Inc.	315,446	-	30,446	-	285,000	-	285,000
Fertuna Holdings Corporation	100,000	-	-	-	100,000	-	100,000
Pure Petroleum Corporation	120,000	50,000	120,000	-	50,000	-	50,000
Montosco, Inc.	50,000	200,000	50,000	-	200,000	-	200,000
Premier Wines and Spirits, Inc.	100,000	-	-	-	100,000	-	100,000
<b>Trade and other receivables</b>							
Meritus Prime Distributions Inc	315,600	-	315,600	-	-	-	-
Montosco, Inc.	163	-	163	-	-	-	-
Nation Realty, Inc	48,500	6,742	-	-	55,242	-	55,242
Premier Wines and Spirits, Inc..	106,700	-	-	-	106,700	-	106,700
Canaria Holdings Corporation	703,036	155,552	76,632	-	781,956	-	781,956
Fertuna Holdings Corporation	-	2,089	-	-	2,089	-	2,089
Ellimac Prime Holdings, Inc.	-	83,494	-	-	83,494	-	83,494
NE Pacific Shopping Center Corp.	-	8	-	-	8	-	8
Alcom Petroleum and Minerals Corporation	-	202	-	-	202	-	202
Patagonia Holdings Corporation	-	20,559	-	-	20,559	-	20,559
Kareila Management Corporation	-	8,449	1,655	-	6,794	-	6,794
<b>Note receivable</b>							
Canaria Holdings Corporation	3,429,215	-	204,643	-	3,224,572	-	3,224,572
	<b>P12,741,569</b>	<b>P1,161,985</b>	<b>P2,405,682</b>	<b>P -</b>	<b>P11,497,872</b>	<b>P -</b>	<b>P11,497,872</b>

**COSCO CAPITAL INC. AND SUBSIDIARIES**  
**SCHEDULE D. LONG TERM DEBT**  
**(Amount in Thousands)**

Title of Issue and type of obligation	Lender	Outstanding Balance	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption "Long-Term Debt" in related balance sheet	Interest Rates	Number of Periodic Installments	Final Maturity
Long-term debt	Land Bank of the Philippines	P939,641	P939,641	P -	5.267%	7	May 2021
	Rizal Commercial Banking Corporation	939,641	939,641	-	5.267%	7	May 2021
	Maybank Philippines	469,641	469,641	-	5.267%	7	May 2021
	Robinsons Bank Corporation	469,641	469,641	-	5.267%	7	May 2021
	Security Bank Corporation	469,641	469,641	-	5.267%	7	May 2021
	United Coconut Planter's Bank	469,641	469,641	-	5.267%	7	May 2021
	The Insular Life Insurance Company, Ltd.	468,365	4,555	463,810	5.579%	10	May 2024
	Security Bank Corporation	468,366	4,556	463,810	5.579%	10	May 2024
	China Banking Corporation	3,442,719	-	3,442,719	4.500%	N/A	October 2030
	Development Bank of the Philippines	2,975,411	-	2,975,411	4.000%	N/A	October 2027
	Keb Hana Bank	496,384	-	496,384	4.000%	N/A	October 2027
	Land Bank of the Philippines	1,487,705	-	1,487,705	4.000%	N/A	October 2030
	Land Bank of the Philippines	1,487,850	-	1,487,850	4.500%	N/A	October 2030
	Metropolitan Bank & Trust Co	992,286	-	992,286	4.000%	N/A	October 2030
	Shinhan Bank	496,384	-	496,384	4.000%	N/A	October 2030
	The Insular Life Assurance Company, Ltd.	496,384	-	496,384	4.000%	N/A	October 2030
<b>Totals</b>		<b>P16,569,700</b>	<b>P3,766,957</b>	<b>P12,802,743</b>			



**COSCO CAPITAL, INC. AND SUBSIDIARIES**

**SCHEDULE E. INDEBTEDNESS TO RELATED PARTIES (LONG TERM LOANS FROM RELATED PARTIES)**

Name of Related Parties (i)	Balance at beginning of period	Balance at end of period (ii)
-----------------------------	--------------------------------	-------------------------------

NOT APPLICABLE

**COSCO CAPITAL, INC. AND SUBSIDIARIES**  
**SCHEDULE F. GUARANTEES OF SECURITIES OF OTHER ISSUERS**

---

Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding (i)	Amount owned by person for which statement is filed	Nature of guarantee (ii)
--	---	---	---	--------------------------

**NOT APPLICABLE**

**COSCO CAPITAL, INC. AND SUBSIDIARIES**  
**SCHEDULE G. CAPITAL STOCK**

Title of Issue	Number of Shares Authorized	Number of Shares Issued and Outstanding at shown under related Statement of Financial Position Caption	Number of Shares Reserved for Options, Warrants, Conversion and other Rights	Number of Shares Held by Related Parties	Directors, Officers and Employees	Others
Common Shares	10,000,000,000	7,405,263,564	-	722,738,524	4,169,784,269	2,512,740,771

## Management's Discussion and Analysis of Operations

The following discussion and analysis of the Group's results of operations, financial condition and certain trends, risks and uncertainties that may affect the Group's business should be read in conjunction with the auditors' reports and the Group's 2020 audited consolidated financial statements and notes attached herewith as Annex "B".

### Key Performance Indicators

The following financial ratios are considered by management as key performance indicators of the Group's operating results as well as its financial condition:

- Return on investment (Net income/ Ave. stockholders' equity) - measures the profitability of stockholders' investment
- Profit margin (Net income/ Net revenue) - measures the net income produced for each peso of sales
- EBITDA to interest expense (EBITDA/ Interest expense) – measures the ability of the Group to pay interest of its outstanding debts
- Current ratio (Current asset/ Current liabilities) - measures the short-term debt-paying ability of the Group
- Asset turnover (Net revenue/ Average total assets) - measures how efficiently assets are used to generate revenues
- Asset to equity ratio (Assets/ Shareholders' equity) - indicates the Group's leverage used to finance the firm
- Debt to equity ratio (Liabilities/ Shareholders' Equity) -measure of a Group's financial leverage

The table below shows the key performance indicators for the past three years:

<b>Performance Indicators</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Return on investment	<b>9.45%</b>	16.60%	10.47%
Profit margin	<b>5.64%</b>	9.27%	5.04%
EBITDA to interest expense	<b>8.98x</b>	8.65x	8.64x
Current ratio	<b>3.60:1</b>	3.45:1	2.47:1
Asset turnover	<b>1.07:1</b>	1.13:1	1.25:1
Asset to equity	<b>1.62:1</b>	1.54:1	1.64:1
Debt to equity ratio	<b>0.62:1</b>	0.54:1	0.64:1

These financial ratios were calculated based on the consolidated financial statements of Cosco Capital, Inc. and its subsidiaries as described more appropriately in Note 1 to the audited financial statements attached in Annex A hereof.

## Comparative Years 2020 and 2019

The table below shows the consolidated results of operations of the Group for the years ended December 31, 2020 and 2019.

<i>(In Thousands)</i>	FY2020	%	FY2019	%0	INCREASE (DECREASE)	%2
REVENUES	177,316,299	100.00%	166,066,712	100.00%	11,249,586	6.77%
COST OF SALES/SERVICES	145,021,136	81.79%	136,177,667	82.00%	8,843,470	6.49%
GROSS PROFIT	32,295,163	18.21%	29,889,045	18.00%	2,406,116	8.05%
OTHER OPERATING INCOME	3,157,850	1.78%	3,262,853	1.96%	(105,003)	-3.22%
GROSS OPERATING INCOME	35,453,013	19.99%	33,151,898	19.96%	2,301,113	6.94%
OPERATING EXPENSES	20,147,712	11.36%	19,147,089	11.53%	1,000,623	5.23%
INCOME FROM OPERATIONS	15,305,300	8.63%	14,004,809	8.43%	1,300,489	9.29%
OTHER INCOME (CHARGES) - net	(1,471,766)	-0.83%	4,909,863	2.96%	(6,381,629)	129.98%
INCOME BEFORE INCOME TAX	13,833,534	7.80%	18,914,672	11.39%	(5,081,140)	-26.86%
INCOME TAX EXPENSE	3,824,607	2.16%	3,521,465	2.12%	303,142	8.61%
NET INCOME FOR THE YEAR	10,008,926	5.64%	15,393,207	9.27%	(5,384,282)	-34.98%
CORE NET INCOME	10,008,926	5.38%	9,319,603	5.61%	689,324	7.40%
CORE NET PATMI	5,900,195	3.28%	5,871,259	3.54%	28,936	0.49%
PATMI	5,900,195	3.33%	11,597,381	6.98%	(5,697,186)	-49.12%
Non-controlling interests	4,108,731	2.32%	3,795,826	2.29%	312,904	8.24%
	10,008,926	5.64%	15,393,207	9.27%	(5,384,282)	-34.98%

### Growth in Revenues

Cosco Capital, Inc. and subsidiaries (the "Group") posted a consolidated revenue of P177.31 Billion during the year ended December 31, 2020 which reflects an increase by P11.25 Billion or 6.77% compared to last year's revenue of P166.07 Billion.

The revenue growth was largely contributed by the grocery retail segment primarily attributed to the continued organic expansion as well as robust SSSG performance of both the supermarket and the warehouse club brands which registered a consolidated year on year growth of 9.2% in 2020.

The revenues from the group's commercial real estate, liquor and wine distribution and specialty retail business segments have continued to experience varying degrees of declines during the year 2020 compared to their 2019 levels particularly during the second and third quarters primarily resulting from the business and social disruptions due to the global Covid-19 pandemic. However, said business segments started to recover during the third quarter due to gradual easing in government restrictions in economic activities. The extent of the business impacts on the respective business segments are more fully described in the specific segment operating and financial highlights section.

### Growth in Net Income

During the year, the Group realized a consolidated net income of P10.0 Billion which is lower by P5.38 Billion representing a decline of 34.98% year on year as compared to last year's net income of P15.39 Billion.

The 2019 net income includes a one-time gain realized from the sale of the group's equity interest in Liquigaz Philippines Corporation amounting to P6.14 Billion. Excluding this one-time gain on sale of investment, core consolidated net income for the year ended December 31, 2020 would show a growth by 7.40%.

As discussed more fully in Note 33 to the unaudited financial statements, the gain on sale previously reported and presented in the quarterly reports in 2019 represents the gain on sale before the effect of share in income recognized from date of acquisition to date of sale which were directly derecognized from the retained earnings account.

Net income attributable to equity holders of the parent company (PATMI) in 2020 amounted to about P5.90 Billion which decreased by about P5.70 Billion or 49.12% as compared to the 2019 PATMI amounting to P11.60 Billion. Similarly, excluding the one-time gain from the sale of investment abovementioned, core PATMI in 2020 would grow by 0.49% which is approximately the same PATMI in 2019.

### **Segment Revenue & Net Income Contributions**

#### Grocery Retail Segment

During the year 2020, the Group's flagship grocery retail business segment registered a consolidated revenue contribution amounting to P168.63 Billion which grew by about 9.20% year on year as compared to the segment's revenue contribution of P154.59 Billion in 2019 in spite of the effects of the current Covid-19 pandemic on consumption spending in the country.

While the segment experienced some uptick in sales during the first quarter due to the initial precautionary consumer buying in preparation for the government imposed community quarantine, revenues from some stand-alone QSR outlets of S&R located at community malls and CBDs which were ordered closed experienced some declines during the period of enhanced community quarantine.

During the year 2020, the segment continued to experience growth in sales performance by around 9.20% accounting for 95% of the Group's consolidated revenues and providing a cushion to compensate the revenue declines experienced by the commercial real estate, liquor and wine distribution as well as the specialty retail business segments resulting from the Covid-19 pandemic.

Consolidated net income contribution in 2020 amounted to P8.07 Billion which increased by P1.29 Billion or 19.11% as compared to the net income contribution of P6.77 Billion in the same year in 2019.

#### Real Estate Segment

The commercial real estate business segment contributed P1.06 Billion to the Group's consolidated revenue in 2020 but experienced a decline of 28.88% from the segment's revenue contribution in 2019 amounting to P1.50 Billion. This was mainly attributable to the management's decision to extend rental reliefs to by way of rental waivers and/or reduced rentals to about 50% of the tenants portfolio directly affected during the temporary closures of all malls and commercial assets in response to the Philippine Government's enhanced community quarantine restrictions.

Consolidated net income contribution in 2020 amounted to about P762.88 Million which decreased by about P408.87 Million or 34.89% as compared to the net income contribution of P1.17 Billion in 2019.

#### Liquor Distribution Segment

The liquor distribution business segment contributed about P5.95 Billion to the Group's consolidated revenue during the year 2020 representing a decline of 22.03% from the 2019 revenue contribution of P7.63 Billion. The decline is mainly attributable to the liquor bans imposed nationwide during the enhanced community quarantine lockdown that started on March 16, 2020 up to May 31, 2020 which was re-imposed in the NCR from August 4 to 18, 2020. The continuing mobility restrictions that affected the travel and tourism sectors nationwide has likewise contributed to the decline in the segment's revenue during the year.



Consolidated net income contribution in 2020 amounted to about P1.18 Billion which slightly decreased by P31.77 Million or 2.62% compared to the net income contribution in 2019 amounting to P1.21 Billion despite the decrease in revenue and this is mainly due to strategic cost-saving measures implemented by the segment.

### Specialty Retail

Office Warehouse, Inc. contributed about P1.67 Billion to the Group's consolidated revenue during the nine-month period of 2020 representing a decrease by about P622.06 Million or 31.82% lower as compared to the 2019 revenue contribution of P2.45 Billion.

The decline was mainly attributable to the government-imposed lockdown and enhanced community quarantine restrictions starting on March 16, 2020 and the related temporary closure of the company's store outlets during the ECQ periods having been classified as non-essential business.

Net income contribution in 2020 amounted to about P55.82 Million which decreased by P41.21 Million or 42.48% as compared to the net income contribution in 2019 amounting to P97.03 Million.

## **Segment Operating & Financial Highlights**

### **Grocery Retail**

#### **Net Sales**

For the year ended December 31, 2020, the Grocery Retail segment posted a consolidated net sales of P168,632 million for an increase of P14,142 million or a growth of 9.2% compared to P154,490 million in 2019. New organic stores put up in 2019 were fully operating in 2020 increasing consolidated net sales. In addition, like for like stores sales posted an increase as well as revenue contributions from new organic stores established during the year.

Like for like consolidated sales performance indicators of the Grocery Retail segment for the year ended December 31 are as follow:

	<b>PGOLD</b>	<b>S&amp;R</b>
Net Sales	<b>2.4%</b>	<b>8.7%</b>
Net Ticket	<b>49.4%</b>	<b>10.4%</b>
Traffic	<b>-31.5%</b>	<b>-1.5%</b>

#### **Gross Profit**

For the year ended December 31, 2020, the Grocery Retail segment realized an increase of 12.4% in consolidated gross profit from P25,951 million in 2019 at 16.8% margin to P29,156 million at 17.3% margin in 2020, driven by strong sales growth from new and old stores and sustained continuing suppliers' support through additional trade discounts in the form of rebates and conditional discounts granted during the period.

### **Other Operating Income**

Other operating income decreased by P108 million or 3.3% from P3,263 million in 2019 to P3,155 million in 2020. This is attributable to decrease in rent income brought about by decrease in rent rate and rent free periods given to tenants, in consideration to those affected by the pandemic.

### **Operating Expenses**

Operating expenses increased by P1,123 million or 6.3% from P17,830 million in December 31, 2019 to P18,953 million in 2020. The increase in operating expenses were mainly attributable to depreciation expense, taxes and licenses, advertising and promotion and credit card charges principally related to the establishment and operation of new organic stores. Utilities and manpower expenses are declining due to the lockdown period enforced by the government and the skeletal workforce being implemented by the Grocery Retail segment.

### **Other Expense - net**

Other expenses net of other income amounted to P1,925 million and P1,804 million in December 31, 2020 and 2019, respectively. Interest income increased in December 2020 due to higher placement in short-term investment as compared to placements made in 2019. Interest expense on loans also increased due to issuance of corporate bonds during the year.

### **Net Income**

For the year ended December 31, 2020, the Grocery Retail segment earned a consolidated net income of P8,067 million at 4.8% net margin and an increase of 19.1% from P6,773 million at 4.4% net margin in 2019.. This was principally driven by the continuous organic expansion of the Group's grocery retail outlets on the back of a sustained strong consumer demand. This has been augmented by combined management strategies and programs to boost revenue contributions from the base stores as well as new stores and constant management efforts to strategically control operating expenses.

### **Commercial Real Estate**

The Group's Real Estate Segment posted P1.69 Billion in revenues for the year ended December 31, 2020 or a 21.0% decrease from P2.15 Billion in 2019. This was mainly attributable to the temporary closures of all malls and commercial assets due to the enhanced community quarantine lockdown imposed by the national government and the management's response to extend rental reliefs by way of rental waivers and/or reduced rentals and other charges for all directly affected mall tenants representing about 50% of the tenants portfolio starting in the second quarter and which continued to the third and fourth quarters subject to management reviews on a quarterly basis.

Income from operations before depreciation decreased by P448.80 Million or 33.03% Million from P1.36 Billion in 2019 to P909.83 Million for the year ended December 31, 2020.

Net income for the year amounted to P699.51 Million or a 42.92% decrease from last year's P1.22 Billion brought about by decline in rental revenue.

## **Liquor Distribution**

Revenues generated by the Liquor Distribution Segment decreased to P8.17 Billion during 2020 or 23.79% decline from last year's P10.72 Billion amidst a decline of 17% in volume (no. of cases) of sales.

The decline in revenue which was principally experienced in the first half directly resulted from the government imposed liquor bans as part of the government's enhanced community quarantine and related lockdown restrictions in response to the Covid-19 pandemic.

Sales performance during the period was still principally driven by its brandy portfolio which continued to account for more than 70% of sales mix augmented by the strong performance of the other spirits as well as wines and specialty beverages categories.

Income from operations, however, decreased to P52.13 Million in 2020 or 3.10% decline from last year's P1.68 Billion

Net income for the year 2020 decreased by only P32.61 Million or 2.69%, from P1.21 Million in 2019 to P1.18 Billion in 2020, due to strategic cost management measures.

## **Specialty Retail**

### *Office Warehouse*

Sales revenues in 2020 declined by 31.80% to P1.67 Billion as compared to the 2019 revenues of P2.45 Billion mainly attributable to the temporary closure of all the company's store outlets due to the enhanced community quarantine and related lockdown restrictions imposed by the government which started on March 16, 2020 that lasted until May 31, 2020 which resulted to a negative SSSG of 32.19% during the year. The continuing general community quarantine and related mobility restrictions particularly in the National Capital Region and other key regions and/or cities throughout the year contributed to the decline in business volume during the year.

Net income contribution in 2020 amounted to about P55.82 Million which decreased by P41.22 Million or 42.50% decline as compared to the net income contribution in 2019 amounting to P97.03 Million, due principally to the decline in level of business traffic and related sales revenue.

## Consolidated Statements of Financial Position

Shown below are the comparative consolidated financial position of the Group:

<i>(In Thousands)</i>	FY2020	%	FY2019	%	INCREASE (DECREASE)	%
<b>ASSETS</b>						
Cash and cash equivalents	48,867,746	27.42%	24,402,014	15.80%	24,465,732	100.26%
Receivables - net	10,308,181	5.78%	16,637,892	10.77%	(6,329,711)	-38.04%
Financial asset at FVOCI	8,365	0.00%	9,209	0.01%	(844)	-9.16%
Financial asset at FVPL	2,411,375	1.35%	34,921	0.02%	2,376,455	-
Inventories	24,914,272	13.98%	24,722,271	16.01%	192,002	0.78%
Due from related parties	184,852	0.10%	192,068	0.12%	(7,216)	-3.76%
Prepayments and other current assets	1,450,993	0.81%	2,000,503	1.30%	(549,510)	-27.47%
<b>Total current assets</b>	<b>88,145,784</b>	<b>49.47%</b>	<b>67,998,877</b>	<b>44.03%</b>	<b>20,146,907</b>	<b>29.63%</b>
Property and equipment - net	28,683,979	16.10%	27,927,953	18.08%	756,025	2.71%
Right-of-use assets	24,270,253	13.62%	21,700,103	14.05%	2,570,150	11.84%
Investment properties - net	11,145,393	6.25%	11,125,998	7.20%	19,396	0.17%
Intangibles and goodwill - net	21,074,976	11.83%	21,089,717	13.65%	(14,741)	-0.07%
Investments	729,909	0.41%	741,175	0.48%	(11,266)	-1.52%
Deferred tax assets-net	902,719	0.51%	566,284	0.37%	336,435	59.41%
Other non-current assets	3,236,813	1.82%	3,299,789	2.14%	(62,976)	-1.91%
<b>Total noncurrent assets</b>	<b>90,044,042</b>	<b>50.53%</b>	<b>86,451,018</b>	<b>55.97%</b>	<b>3,593,024</b>	<b>4.16%</b>
<b>Total Assets</b>	<b>178,189,826</b>	<b>100.00%</b>	<b>154,449,895</b>	<b>100.00%</b>	<b>23,739,931</b>	<b>15.37%</b>
<b>LIABILITIES AND EQUITY</b>						
<b>Current Liabilities</b>						
Accounts payable and accrued expenses	16,667,022	9.35%	15,127,981	9.79%	1,539,042	10.17%
Income tax payable	1,534,051	0.86%	1,164,727	0.75%	369,324	31.71%
Short-term loans payable	42,000	0.02%	871,124	0.56%	(829,124)	-95.18%
Current portion of long-term borrowing	3,766,957	2.11%	43,685	0.03%	3,723,272	-
Lease liability	1,035,180	0.58%	567,682	0.37%	467,499	82.35%
Due to related parties	762,031	0.43%	1,343,460	0.87%	(581,429)	-43.28%
Other current liabilities	662,449	0.37%	596,992	0.39%	65,457	10.96%
<b>Total current liabilities</b>	<b>24,469,690</b>	<b>13.73%</b>	<b>19,715,651</b>	<b>12.77%</b>	<b>4,754,039</b>	<b>24.11%</b>
Retirement benefit liability	1,431,760	0.80%	955,818	0.62%	475,942	49.79%
Lease liability-net of current portion	29,149,190	16.36%	26,101,259	16.90%	3,047,932	11.68%
Deferred tax liabilities	144,588	0.08%	128,586	0.08%	16,003	12.45%
Long term loans payable - net of debt issue cost	12,802,743	7.18%	5,094,577	3.30%	7,708,166	151.30%
Other non-current liabilities	412,525	0.23%	393,219	0.25%	19,306	4.91%
<b>Total noncurrent liabilities</b>	<b>43,940,807</b>	<b>24.66%</b>	<b>32,673,459</b>	<b>21.15%</b>	<b>11,267,348</b>	<b>34.48%</b>
<b>Total Liabilities</b>	<b>68,410,496</b>	<b>38.39%</b>	<b>52,389,110</b>	<b>33.92%</b>	<b>16,021,386</b>	<b>30.58%</b>
<b>EQUITY</b>						
Capital stock	7,405,264	4.16%	7,405,264	4.79%	-	-
Additional paid-in capital	9,634,644	5.41%	9,634,644	6.24%	-	-
Remeasurement of retirement liability - net of tax	(82,145)	-0.05%	5,412	0.00%	(87,557)	-
Reserve for fluctuations in value of financial assets at FVOC	4,759	0.00%	5,603	0.00%	(844)	-15.06%
Treasury shares	(1,652,861)	-0.93%	(1,403,974)	-0.91%	(248,887)	17.73%
Retained earnings	58,915,686	33.06%	54,167,213	35.07%	4,748,474	8.77%
<b>Total Equity Attributable to Equity Holders of Parent Company</b>	<b>74,225,347</b>	<b>41.66%</b>	<b>69,814,161</b>	<b>45.20%</b>	<b>4,411,186</b>	<b>6.32%</b>
Non-controlling interest	35,553,982	19.95%	32,246,624	20.88%	3,307,358	10.26%
<b>Total Equity</b>	<b>109,779,329</b>	<b>61.61%</b>	<b>102,060,785</b>	<b>66.08%</b>	<b>7,718,544</b>	<b>7.56%</b>
<b>Total Liabilities and Equity</b>	<b>178,189,826</b>	<b>100.00%</b>	<b>154,449,895</b>	<b>100.00%</b>	<b>23,739,930</b>	<b>15.37%</b>

### **Current Assets**

**Cash and cash equivalents** amounted to P48.88 Billion as at December 31, 2020 with an increase of P24.46 Billion or 100.26% from December 31, 2019 balance. The increase was due basically to the net effect of the net operating cash flows, collection of receivables and settlement of trade and non-trade payables principally from the Grocery Retail Segment and Parent Company, payment of 2019 cash dividends, loan availments and settlements and payments for capital expenditures during the year.

**Receivables** decreased by 38.04% from December 31, 2019 balance of P16.64 Billion to this year's balance of P10.31 Billion due mainly to the net effect of collections made on trade and non-trade receivables as well as loans granted to companies under common control.

**Financial assets at fair value through comprehensive income (FVOC)** decreased by 9.16% from December 31, 2019 balance of P9.21 Million to this year's balance of P8.36 Million due mainly to the effect of changes in stock prices.

**Financial assets at fair value through profit or loss (FVPL)** increased by 2.38 Billion from December 31, 2019 balance of P34.92 Million to this year's balance of P2.41 Billion due mainly to the recognition of investments in marketable debt securities made by the Grocery Retail segment.

**Inventories** increased by 0.78% from 2019 balance of P24.72 Billion to this year's balance of P24.91 Billion due to the additional stocking requirement of existing and new operating stores of Grocery Retail segment, while stocking requirements of the Liquor Distribution and Specialty Retail segments decreased due to the effect of quarantine restrictions. Bulk of the inventory account pertains to the merchandise inventory stocks of the Grocery Retail Segment amounting to P20.92 Billion.

**Prepaid expenses and other current assets** decreased by P549.51 Million or 27.47% at the end of December 2020, mainly due to amortization of prepayments made for advertising, taxes and licenses, and application of input VAT by Grocery Retail, Real Estate and Liquor Distributions segments.

**Due from related parties** decreased by P7.22 Million at the end of December 2020, due primarily to settlement of advances.

### **Non-current Assets**

As at December 31, 2020 and 2019, total non-current assets amounted to P90.04 Billion or 50.53% of total assets, and P86.45 Billion or 55.97% of total assets, respectively, for an increase of P3.59 Billion or 4.16%.

**Property and equipment-net** pertains to the buildings and equipment owned mostly by the Grocery Retail segment. Book values of property and equipment increased by P756.02 Million from P27.93 Billion in December 2019 to P28.68 Billion in December 2020 due principally to capital expenditures pertaining to new stores established by the Grocery Retail Segment.

**Right-of-use assets (ROU)** represents the values recognized from long-term lease contracts covering land and buildings utilized by Grocery Retail, Real Estate, Liquor Distributions and Specialty Retail segments pursuant to the retrospective adoption of the new lease accounting standards under PFRS 16 which became effective January 1, 2019. . Book values of ROU increased by P2.57 Billion from P21.70 Billion in December 2019 to P24.27 Billion in December 2020 due principally to additional ROU assets recognized from new lease contracts entered into pertaining to new organic stores established in the current period net of depreciation recognized during the same year.

**Investment properties-net** pertains to the land, buildings and equipment owned by the Real Estate segment. Book values of investment properties increased by P19.40 Million from P11.12 Billion in December 2019 to P11.14 Billion in December 2020.

**Investments** decreased by P11.27 Million from P741.17 Million in December 2019 to P729.91 Million in December 2020 representing the share in results of operations of investees.

**Intangibles and goodwill-net** decreased by P14.74 Million from P21.09 Billion in December 2019 to P21.07 Billion in December 2020 primarily due to the periodic amortizations of computer software cost recognized during the year.

**Deferred tax assets** increased by P336.43 Million or 59.41% from P566.28 Million in December 2019 to P902.72 Million in December 2020 resulting mainly from the additional recognition of deferred tax assets by the Grocery Retail segment from ROU assets recognized.

**Other non-current assets** decreased by P62.97 Million from P3.30 Billion in December 2019 to P3.24 Billion in December 2020. About 77% of these assets are attributable to the Grocery Retail Segment and the decrease was primarily due to additional security deposits, advance payment to contractors, accrued rental income pertaining to future periods in accordance with the lease accounting standards under PAS 17 and application of deferred input VAT.

### **Current Liabilities**

As at December 31, 2020 and 2019, total current liabilities amounted to P24.47 Billion and P19.71 Billion respectively, for an increase of P4.75 Billion or 24.11%.

About 78% of **accounts payable and accrued expenses** pertains to the trade payable to suppliers by the Grocery Retail Segment and the balance mostly to the contractors and suppliers of the Real Estate, Liquor Distribution and Specialty Retail segments. The increase by P1.54 Billion or 10.17% was primarily due to increase of trade and non-trade liabilities and accrual of cash dividends by the Grocery Retail segment and Parent Company in December 2020.

Significant portion of the **income tax payable** pertains to that of the Grocery Retail segment. The increase by P369.24 Million from P1.16 Billion as at December 2019 to P1.53 Billion as at December 31, 2020 is mainly due to additional income taxes incurred relative to the increase in net taxable income during the year 2020 in relation to the same period in 2019.

**Short-term loans payable** account decreased by P829.12 Million mainly due to settlements made by the Real Estate and Liquor Distribution segments.

**Current portion of long-term borrowing** increased by P3.72 Billion mainly due to the reclassification of long term loans of the Parent Company maturing in 2021.

**Lease liabilities due within one year** account increased by P467.50 Million from P567.68 Million in December 2019 to P1.03 Billion in December 2020 due principally to the net effect of additional leases, interest expense amortization recognized and lease payments made during the current period.

**Due to related parties** decreased by P581.43 Million mainly due to the settlements made.

**Other current liabilities** decreased by 10.96% from P596.99 Million as at December 31, 2019 to P662.45 Million as at December 31, 2020 relatively due to deposits from tenants by the Real Estate segment and sale of gift certificates during the year by the Grocery Retail segment



### **Noncurrent Liabilities**

As at December 31, 2020 and 2019, total non-current liabilities amounted to P43.94 Billion and P32.67 Billion, respectively, for an increase of P11.27 Billion or 34.48%.

**Long-term loans payable-net of current portion** increased by P7.71 Billion mainly due to the availment of long term corporate notes by the Grocery Retail segment net of reclassification to current portion of maturing long term corporate notes by the Parent Company.

**Lease liabilities** represents the values recognized from long-term lease contracts covering land and buildings utilized by Grocery Retail, Liquor Distributions, Real Estate and Specialty Retail segments pursuant to the retrospective adoption of the new lease accounting standards under PFRS 16 which became effective January 1, 2019. . The account increased by P3.05 Billion from P26.10 Billion in December 2019 to P29.15 Billion in December 2020 due principally to the net effect of additional leases, interest expense amortization recognized and lease payments made during the current year.

**Retirement benefit liability** increased by P475.94 Million mainly due to the net effect of recognition of additional benefit cost during 2020 and the effect of additional remeasurements arising from the effect of changes in financial assumptions and experience adjustments.

**Other non-current liabilities** increased by P19.31 Million or 4.91% from P393.22 Million in December 2019 to P412.52 Million as at December 31, 2020 recognition of customer deposits and advance rentals by the Real Estate segment.

### **Equity**

As at December 31, 2020 and December 31, 2019, total equity amounted to P109.78 Billion and P102.06 Billion, respectively, for an increase of P7.72 Billion or 7.56%.

**Retirement benefits reserve** pertain to adjustments made in compliance with the accounting standard covering employee benefits. As at December 2020, the account decreased by P87.56 Million due to unrealized loss on re-measurement of defined benefit liability as a result of changes in financial assumptions and experience adjustments.

**Treasury shares** increased by P248.89 million from P1.40 Billion in December 2019 to P1.65 Billion as at December 31, 2020 due to additional buyback by the Parent Company during the year pursuant to its existing share buyback program.

**Retained earnings** increased by P4.75 Billion or 8.77% from P54.17 Billion in December 2019 to P58.91 Billion as at December 31, 2020 due to profit realized by the Group, net of cash dividend declaration.

**Non-controlling interest** increased by P3.31 Billion or 10.26% from P32.24 Billion in December 2019 to P35.55 Billion as at December 31, 2020 mainly due to share in the consolidated profit and the effect of top-up placement by the Grocery Retail segment.

### Sources and Uses of Cash

A brief summary of cash flow movements is shown below:

	<u>For the years ended December 31</u>	
<i>(In thousands)</i>	<b>2020</b>	2019
Net cash flows from operating activities	<b>P18,567,985</b>	P17,596,154
Net cash flows used in investing activities	<b>(469,433)</b>	(5,030,032)
Net cash flows used in financing activities	<b>6,406,190</b>	(5,006,579)
<b>Net increase in cash and cash equivalents</b>	<b>P24,465,778</b>	P7,617,153

Net cash generated from operating activities during the current year is basically attributable to the cash generated from operations and effect of the net settlement of trade payable accounts by the Grocery Retail, Real Estate and Liquor Distribution Segment during the year, purchase of inventories for new stores stocking requirements and other related current operating items to support the segment's expansion.

On the other hand, net cash used in investing activities mainly pertains to the funds used for additional capital expenditures by the Grocery Retail segment's new stores expansion and additional assets acquisition and capital expenditures by the Real Estate segment and Specialty Retail segment, collection of loans receivable, investments in bonds and proceeds from the eventual sale thereof.

Net cash used in financing activities principally resulted from the net settlements of bank loans by the Liquor Distribution, Real Estate and Parent Company during the year, repayment of principal and interest by the group relating to lease liability, payment of 2019 cash dividends declared and shares buyback program by the Grocery Retail segment and Parent Company.

Management believes that the current levels of internally generated funds from its operating activities and its present cash position enables the Group to meet its immediate future liquidity requirements under its current work program commitments as well as other strategic investment opportunities. Moreover, its strong financial position can be readily augmented through availments from existing untapped banking and credit facilities as and when required.

## Comparative Years 2019 and 2018

The table below shows the consolidated results of operations of the Group for the years ended December 31, 2019 and 2018.

<i>(In Thousands)</i>	FY2019	%	FY2018	%	INCREASE (DECREASE)	%
REVENUES	166,066,712	100.00%	168,210,357	100.00%	(2,143,644)	-1.27%
COST OF SALES/SERVICES	136,177,666	82.00%	139,809,619	83.12%	(3,631,953)	-2.60%
GROSS PROFIT	29,889,046	18.00%	28,400,738	16.88%	1,488,308	5.24%
OTHER OPERATING INCOME	3,262,853	1.96%	2,994,765	1.78%	268,088	8.95%
GROSS OPERATING INCOME	33,151,900	19.96%	31,395,503	18.66%	1,756,397	5.59%
OPERATING EXPENSES	19,147,089	11.53%	18,326,809	10.90%	820,280	4.48%
INCOME FROM OPERATIONS	14,004,811	8.43%	13,068,694	7.77%	936,117	7.16%
OTHER INCOME (CHARGES) - net	4,909,862	2.96%	(1,301,028)	-0.77%	6,210,890	477.38%
INCOME BEFORE INCOME TAX	18,914,673	11.39%	11,767,667	7.00%	7,147,007	60.73%
INCOME TAX EXPENSE	3,521,465	2.12%	3,285,862	1.95%	235,604	7.17%
NET INCOME FOR THE YEAR	15,393,208	9.27%	8,481,805	5.04%	6,911,403	81.49%
Equity Holders of the Parent Company	11,597,381	6.98%	5,381,485	3.20%	6,215,896	115.51%
Non-controlling interests	3,795,827	2.29%	3,100,319	1.84%	695,508	22.43%
	15,393,208	9.27%	8,481,805	5.04%	6,911,404	81.49%
EARNINGS PER SHARE (EPS)	1.65437		0.75975			117.75%
CORE EPS	0.83754		0.73362			14.16%

### Growth in Revenues

Cosco Capital, Inc. and subsidiaries (the “Group”) posted a consolidated revenue of P166.06 Billion during the year ended December 31, 2019 which reflects a decrease by P2.14 Billion or 1.27% compared to last year’s revenue of P168.21 Billion.

The 2019 revenue figures do not anymore include the revenue contributions from Liquigaz in view of the divestment of the group’s equity interests which was closed and completed on February 13, 2019. Excluding Liquigaz’s revenue contribution in 2018 amounting to about P17.09 Billion, for like for like comparability, consolidated revenues of all the business segments in 2019 would reflect a normalized growth of 9.89% year on year over 2018 performance.

### Growth in Net Income

During the same year, the Group realized a consolidated net income of P15.39 Billion which is higher by P6.91 Billion representing a growth of 81.49% as compared to last year’s net income of P8.48 Billion which was restated to reflect the retrospective effect of the adoption of new lease accounting standard on Grocery Retail, Real Estate, Liquor Distribution and Specialty Retail segments’ net income.

The 2019 net income includes a one-time gain realized from the sale of the group’s equity interest in Liquigaz Philippines Corporation amounting to P6.07 Billion. Excluding this one-time gain on sale of investment, core consolidated net income for the year ended December 31, 2019 amounted to P9.32 Billion at 5.61% net margin and for a growth of 14.79%.

As discussed more fully in Note 33 to the audited financial statements, the gain on sale previously reported and presented in the quarterly reports in 2019 represents the gain on sale before the effect of share in income recognized from date of acquisition to date of sale which were directly derecognized from the retained earnings account.

Net income attributable to equity holders of the parent company (PATMI) in 2019 amounted to about P11.60 Billion which increased by about P6.21 Billion or 115.51% as compared to the 2018 PATMI amounting to P5.38 Billion. Similarly, excluding the one-time gain from the sale of investment abovementioned, core PATMI in 2019 would amount to P5.87 Billion which is 13.0% higher than the 2018 PATMI of P5.19 Billion.

### **Segment Revenue & Net Income Contributions**

#### Grocery Retail Segment

During the year 2019, the Group's grocery retail business segment registered a consolidated revenue contribution amounting to P154.49 Billion or an increase of P13.35 Billion or about 9.46% growth as compared to the segment's revenue contribution of P141.14 Billion of last year brought about by its continued aggressive stores expansion program and management's combined efforts to boost revenue.

Consolidated net income contribution in 2019 amounted to P6.77 Billion which increased by P573.29 Million or 9.25% as compared to the net income contribution of P6.20 Billion in 2018. This includes the one-time gain amounting to around P363 Million realized from the sale of shares in PG Lawson. Excluding this non-recurring item, core consolidated net income amounted to P6.75 Billion which registered a growth of 16.0% year on year from the previous year.

#### Real Estate Segment

The commercial real estate business segment contributed P1.49 Billion to the Group's consolidated revenue in 2019 representing a growth of about P118.54 Million or 8.59% of the segment's revenue contribution in 2018 amounting to P1.38 Billion. This was mainly attributable to the additional leasable area from the new mall assets added to the portfolio during the first quarter of 2018 and in 2019, sustained higher occupancy rates and higher income from its oil storage tanks business unit operating within the Subic Bay Freeport.

Consolidated net income contribution in 2018 amounted to about P1.17 Billion which increased by about P85.79 Million or 7.90% as compared to the net income contribution of P1.08 Billion in 2018, which was restated to reflect the retrospective effect of the adoption of the new lease accounting standard under PFRS 16 effective January 1, 2019.

#### Liquor Distribution Segment

The liquor distribution business segment contributed about P7.63 Billion to the Group's consolidated revenue in 2019 representing an increase by about P1.11 Billion or 17.12% higher as compared to the 2018 revenue contribution of P6.51 Billion mainly attributable to its continued strong sales performance of its brandy category particularly the Alfonso brand and on the back of its aggressive sales and marketing campaign during the period.

Consolidated net income contribution in 2019 amounted to about P1.21 Billion which increased by P470.15 Million or 63.26% as compared to the net income contribution in 2018 amounting to P743.18 Million, which was restated to reflect the retrospective effect of the adoption of the new lease accounting standard under PFRS 16 effective January 1, 2019.

### Specialty Retail

In view of the group's divestment in Liquigaz which was completed in February 2019 following the approval of the transaction by the Philippine Competition Commission, the financial performance of the Specialty Retail segment in 2019 covers only that of Office Warehouse.

Office Warehouse, Inc. contributed about P2.45 Billion to the Group's consolidated revenue during the fiscal year 2019 representing an increase by about P361.83 Million or 17.35% higher as compared to the 2018 revenue contribution of P2.08 Billion mainly attributable to its strong same store sales growth (SSSG) of 12.19% and its enhanced product offerings and aggressive sales and marketing campaign. Net income contribution in 2019 amounted to about P97.03 Million which increased by P31.45 Million or 48.0% as compared to 2018 amounting to P65.58 Million, which was restated to reflect the retrospective effect of the adoption of the new lease accounting standard under PFRS 16 effective January 1, 2019.

## **Segment Operating & Financial Highlights**

### Grocery Retail

#### **Net Sales**

For the year ended December 31, 2019, the Grocery Retail Segment posted a consolidated net sales of P154,490 million for an increase of P13,351 million or a growth of 9.5% compared to P141,139 million in 2018. New organic stores put up in 2018 were fully operating in 2019 increasing consolidated net sales in addition to robust like for like stores sales growth and revenue contributions from new organic stores established during the year.

Like for like consolidated sales performance indicators of the group for the year ended December 31 are as follow:

	<b>PGOLD</b>	<b>S&amp;R</b>
Net Sales	<b>4.6%</b>	<b>8.3%</b>
Net Ticket	<b>8.5%</b>	<b>7.3%</b>
Traffic	<b>-3.5%</b>	<b>0.9%</b>

#### **Gross Profit**

For the year ended December 31, 2019, the Grocery Retail Segment realized an increase of 8.5% in consolidated gross profit from P23,929 million in 2018 at 17.0% margin to P25,951 million at 16.8% margin in 2019, driven by strong sales growth from new and old stores and sustained continuing suppliers' support through additional trade discounts in the form of rebates and conditional discounts granted during the period. The margin slightly declined during the current period accounting primarily to lower supplier support in relation to product cost.

### **Other Operating Income**

Other operating income increased by P322 million or 10.9% from P2,941 million in 2018 to P3,263 million in 2019. This is attributable to increase in concess income, membership income and rent income driven mainly by new stores opened during the year and full operation of new stores opened in 2018.

### **Operating Expenses**

Operating expenses increased by P1,191 million or 7.2% from P16,639 million in December 31, 2018 to P17,830 million in 2019. The incremental operating expenses were mainly attributable to depreciation expense, taxes and licenses, repairs and maintenance, advertising and promotion, credit card charges and manpower expenses principally related to the establishment and operation of new organic stores.

### **Other Expense - net**

Other expenses net of other income amounted to P1,804 million and P1,528 million in December 31, 2019 and 2018, respectively. Interest income increased in December 2019 due to higher placement in short-term investment as compared to placements made in 2018. Interest expense comprised bulk of the account as a result of adoption of the new accounting standard, PFRS 16 – Leases.

### **Net Income**

For the year ended December 31, 2019, the Grocery Retail Segment earned a consolidated net income of P6,773 million at 4.4% net margin and an increase of 9.2% from P6,200 million at 4.4% net margin in 2018. Excluding the one-time gain on sale of investment in joint venture and share in equity investments, core consolidated net income grew by 16.0% at 4.4% and 4.1% net margin in 2019 and 2018, respectively. This was principally driven by the continuous organic expansion of the Grocery Retail Segment's grocery retail outlets on the back of a sustained strong consumer demand. This has been augmented by combined management strategies and programs to boost revenue contributions from the base stores as well as new stores and constant management efforts to strategically control operating expenses.

### **Commercial Real Estate**

The Group's Real Estate Segment posted P2.14 Billion in revenues for the year ended December 31, 2019 or a 5.71% increase from P2.03 Billion from 2018. This was mainly attributable to the additional leasable area from its new mall assets added to its portfolio in early 2018 and 2019, higher occupancy rates and higher income from its oil storage tanks business unit operating within the Subic Bay Freeport.

Income from operations before depreciation increased by P69.43 Million or 4.5% from P1.53 Billion in 2018 to P1.60 Billion for the year ended December 31, 2019.

Net income for the year ended December 31, 2019 amounted to P1.22 Billion or a 12.8% increase from last year's P1.08 Billion brought about by additional rental revenue.



## **Liquor Distribution**

Revenues generated by the Liquor Distribution Segment increased to P10.72 Billion in 2019 or 22.52% growth from last year's P8.74 Billion on the back of a robust sales performance in volume (no. of cases) sold which grew by about 43%. The strong sales performance is still principally driven by its brandy portfolio which accounts for more than 70% of sales augmented by the strong performance of the other spirits sector.

Income from operations increased to P1.68 Billion in 2019 or 66.63% higher from last year's P1.01 Billion.

Net income for the 2019 period increased by P474.09 Million from P738.36 Million in 2018 to P1.21 Billion in 2019 or 64.20% growth.

## **Specialty Retail**

### *Office Warehouse*

As at December 31, 2019, the company had expanded its retail network to 89 stores from 46 stores at acquisition date sometime in May 2014. Net selling area also increased to 15,589 sq.m. or a cumulative growth by 41.25% from the date of acquisition. Sales revenues increased to P2.45 Billion in 2019 or 17.3% higher as compared to the 2018 revenue of P2.09 Billion mainly attributable to its continuing stores network expansion program, enhanced product offerings as well as aggressive sales and marketing campaign which also drove a strong SSSG of 12.19% during the fiscal year 2019. Net income contribution in 2019 amounted to about P97.03 Million which increased by P31.45 Million or 48% as compared to the net income contribution in 2018 amounting to P65.58 Million

### *Liquigaz*

On October 19, 2018, Liquigaz parent company, Canaria Holdings Corporation (CHC) and Fernwood Holdings, Inc. signed a Share Purchase Agreement whereby Canaria sells all its shares in Liquigaz Philippines Corporation and Calor Phils. Holdings, Inc. to Fernwood Holdings, Inc. The transaction was subsequently approved by the Philippine Competition Commission on January 17, 2019 paving the way for its closing and completion on February 13, 2019.

The sale of investment in Liquigaz resulted to a one-time gain of P6.07 Billion, net of capital gains tax.

Revenues generated in 2018 amounted to P17.09 Billion and net income of P626.23 Million.

## Consolidated Statements of Financial Position

Shown below are the comparative consolidated financial position of the Group:

(In Thousands)	2019	%	2018 (As Restated)	%	INCREASE (DECREASE)	%
<b>Current Assets</b>						
Cash and cash equivalents	24,402,014	15.80%	16,784,861	12.03%	7,617,153	45.38%
Receivables - net	16,637,892	10.77%	6,630,927	4.75%	10,006,966	150.91%
Financial asset at FVOCI	9,209	0.01%	7,026	0.01%	2,182	31.06%
Financial asset at FVPL	34,921	0.02%	36,503	0.03%	(1,582)	-4.33%
Inventories	24,722,271	16.01%	23,931,657	17.15%	790,614	3.30%
Due from related parties	192,068	0.12%	47,971	0.03%	144,096	300.38%
Prepayments and other current assets	2,000,502	1.30%	2,609,348	1.87%	(608,846)	-23.33%
	67,998,876	44.03%	50,048,292	35.87%	17,950,584	35.87%
Assets of disposal group classified as held for sale	-	-	7,320,895	5.25%	(7,320,895)	-100.00%
<b>Total current assets</b>	67,998,876	44.03%	57,369,187	41.11%	10,629,689	18.53%
<b>Noncurrent Assets</b>						
Property and equipment - net	27,927,953	18.08%	26,343,793	18.88%	1,584,160	6.01%
Right-of-use assets	21,700,103	14.05%	20,082,426	14.39%	1,617,676	8.06%
Investment properties - net	11,125,998	7.20%	10,836,618	7.77%	289,379	2.67%
Intangibles and goodwill - net	21,089,717	13.65%	21,095,502	15.12%	(5,786)	-0.03%
Investments	741,175	0.48%	603,175	0.43%	138,000	22.88%
Deferred oil and mineral exploration costs		0.00%	123,365	0.09%	(123,365)	-100.00%
Deferred tax assets-net	566,284	0.37%	96,263	0.07%	470,021	488.27%
Other non-current assets	3,299,789	2.14%	2,987,211	2.14%	312,578	10.46%
<b>Total noncurrent assets</b>	86,451,018	55.97%	82,168,354	58.89%	4,282,665	5.21%
<b>Total Assets</b>	154,449,894	100.00%	139,537,541	100.00%	14,912,354	10.69%
<b>LIABILITIES</b>						
<b>Current Liabilities</b>						
Accounts payable and accrued expenses	15,127,981	9.79%	13,016,166	9.33%	2,111,814	16.22%
Income tax payable	1,164,727	0.75%	930,909	0.67%	233,818	25.12%
Short-term loans payable	871,124	0.56%	4,866,300	3.49%	(3,995,176)	-82.10%
Current portion of long-term borrowing	43,685	0.03%	49,999	0.04%	(6,314)	-12.63%
Lease liabilities due within one year	567,682	0.37%	725,846	0.52%	(158,164)	-21.79%
Due to related parties	1,343,460	0.87%	1,365,863	0.98%	(22,403)	-1.64%
Other current liabilities	596,992	0.39%	434,901	0.31%	162,091	37.27%
	19,715,651	12.77%	21,389,984	15.33%	(1,674,333)	-7.83%
Liabilities of disposal group classified as held for sale	-	-	1,834,651	1.31%	(1,834,651)	-100.00%
<b>Total current liabilities</b>	19,715,651	12.77%	23,224,635	16.64%	(3,508,984)	-15.11%
<b>Noncurrent Liabilities</b>						
Retirement benefit liability	955,818	0.62%	508,533	0.36%	447,285	87.96%
Lease liabilities	26,101,259	16.90%	23,496,626	16.84%	2,604,632	11.09%
Deferred tax liabilities	128,586	0.08%	177,626	0.13%	(49,040)	-27.61%
Long term loans payable - net of debt issue cost	5,094,577	3.30%	6,572,209	4.71%	(1,477,632)	-22.48%
Other non-current liabilities	393,219	0.25%	433,342	0.31%	(40,123)	-9.26%
<b>Total noncurrent liabilities</b>	32,673,459	21.15%	31,188,337	22.35%	1,485,123	4.76%
<b>Total Liabilities</b>	52,389,110	33.92%	54,412,971	39.00%	(2,023,861)	-3.72%
<b>EQUITY</b>						
Capital stock	7,405,264	4.79%	7,405,264	5.31%	-	-
Additional paid-in capital	9,634,644	6.24%	9,634,644	6.90%	-	-
Retirement benefits reserve	5,412	0.00%	113,822	0.08%	(108,410)	-95.25%
Other reserve	5,602	0.00%	3,420	0.00%	2,182	63.78%
Treasury shares	(1,403,974)	-0.91%	(1,197,727)	-0.86%	(206,247)	17.22%
Retained earnings	54,167,212	35.07%	42,775,502	30.66%	11,391,710	26.63%
<b>Total Equity Attributable to Equity Holders of Parent Company</b>	69,814,160	45.20%	58,734,925	42.09%	11,079,235	18.86%
Non-controlling interest	32,246,624	20.88%	26,389,644	18.91%	5,856,980	22.19%
<b>Total Equity</b>	102,060,784	66.08%	85,124,569	61.00%	16,936,215	19.90%
<b>Total Liabilities and Equity</b>	154,449,894	100.00%	139,537,541	100.00%	14,912,353	10.69%

### **Current Assets**

**Cash and cash equivalents** amounted to P24.40 Billion as at December 31, 2019 with an increase of P7.62 Billion or 45.38% from December 31, 2018 balance. The increase was due basically to the net effect of the net operating cash flows, collection of receivables and settlement of trade and non-trade payables principally from the Grocery Retail Segment and Parent Company, payment of 2019 cash dividends, settlement of loans and payments for capital expenditures during the year.

**Receivables** increased by 150.91% from December 31, 2018 balance of P6.63 Billion to this year's balance of P16.64 Billion due mainly to the net effect of collections made and the loans granted to companies under common control.

**Assets of disposal group classified as held for sale** pertain to current and noncurrent assets of Liguigaz Philippine Corporation (LPC) which were reclassified as at December 31, 2018 in view of the sale of the group's equity interest in LPC) through a Share Purchase Agreement signed on October 19, 2018 between Canaria Holdings Corporation (CHC) and Fernwood Holdings, Inc. which was subsequently approved by the Philippine Competition Commission on January 17, 2019. The sale transaction was closed and completed on February 13, 2019, thus paving the way for the derecognition of these assets in the consolidated statements of financial position.

**Financial assets at fair value through comprehensive income (FVOC)** increased by 31.06% from December 31, 2018 balance of P7.02 Million to this year's balance of P9.21 Million due mainly to the effect of changes in stock prices.

**Financial assets at fair value through profit or loss (FVPL)** decreased by 4.33% from December 31, 2018 balance of P36.50 Million to this year's balance of P34.92 Million due mainly to the effect of changes in stock market prices.

**Inventories** increased by 3.30% from 2018 balance of P23.93 Billion to this year's balance of P24.72 Billion due additional stocking requirement of existing and new operating stores, as well as the additional stocking requirements of the Liquor Distribution segment. Bulk of the inventory account pertains to the merchandise inventory stocks of the Grocery Retail Segment amounting to P19.53 Billion.

**Prepaid expenses and other current assets** decreased by P608.85 Million or 23.33% at the end of December 2019, mainly due to amortization of prepayments made for advertising, taxes and licenses, availment of new policies for insurance of new stores and application of input VAT by Grocery Retail, Real Estate and Liquor Distributions segments.

**Due from related parties** increased by P144.09 Million at the end of December 2019, due primarily to additional advances made.

### **Non-current Assets**

As at December 31, 2019 and 2018, total non-current assets amounted to P86.41 Billion or 55.96% of total assets, and P82.17 Billion or 58.89% of total assets, respectively, for an increase of P4.24 Billion or 5.17%.

**Property and equipment-net** pertains to the buildings and equipment owned mostly by the Grocery Retail segment. Book values of property and equipment increased by P1.58 Billion from P26.34 Billion in December 2018 to P27.93 Billion in December 2019 due principally to capital expenditures pertaining to new stores established by the Grocery Retail Segment.

**Right-of-use assets (ROU)** represents the values recognized from long-term lease contracts covering land and buildings utilized by Grocery Retail, Real Estate, Liquor Distributions and Specialty Retail segments pursuant to the retrospective adoption of the new lease accounting standards under PFRS 16 which became effective January 1, 2019. . Book values of ROU increased by P1.62 Billion from P20.08 Billion in December 2018 to P21.70 Billion in December 2019 due principally to additional ROU assets recognized from new lease contracts entered into pertaining to new organic stores established in the current period net of depreciation recognized during the same year.

**Investment properties-net** pertains to the land, buildings and equipment owned by the Real Estate segment. Book values of investment properties increased by P289.38 Million from P10.84 Billion in December 2018 to P11.12 Billion in December 2019.

**Investments** increased by P138 Million from P603.17 Million in December 2018 to P741.17 Million in December 2019 representing the additional equity investments by the Liquor Distribution segment in Pernod Philippines.

**Intangibles and goodwill-net** decreased by P5.78 Million from P21.09 Billion in December 2018 to P21.09 Billion in December 2019 primarily due to the periodic amortizations of computer software cost recognized during the year.

**Deferred tax assets** increased by P432.59 Million or 448.35% from P96.26 Million in December 2018 to P527.86 Million in December 2019 resulting mainly from the additional recognition of deferred tax assets by the Grocery Retail segment from ROU assets recognized.

**Other non-current assets** increased by P312.58 Million from P2.99 Billion in December 2018 to P3.30 Billion in December 2019. About 73% of these assets are attributable to the Grocery Retail Segment and the increase was primarily due to additional security deposits, advance payment to contractors and advance rentals in relation to new leases acquired for new stores development pipeline as well as the accrued rental income pertaining to future periods in accordance with the lease accounting standards under PAS 17.

### **Current Liabilities**

As at December 31, 2019 and 2018, total current liabilities amounted to P19.71 Billion and P23.22 Billion respectively, for a decrease of P3.51 Billion or 15.11%.

About 75% of **accounts payable and accrued expenses** pertains to the trade payable to suppliers by the Grocery Retail Segment and the balance mostly to the contractors and suppliers of the Real Estate, Liquor Distribution and Specialty Retail segments. The increase by P2.11 Billion or 16.22% was primarily due to increase of trade and non-trade liabilities and declaration of dividends by the Grocery Retail segment and Parent Company in 2019.

Significant portion of the **income tax payable** pertains to that of the Grocery Retail segment. The increase by P233.82 Million from P930.31 Million as at December 2018 to P1.16 Billion as at December 31, 2019 is mainly due to additional income taxes incurred relative to the increase in net taxable income during the year 2019 in relation to the same period in 2018.

**Liabilities of disposal group classified as held for sale** pertain to current and noncurrent liabilities under LPC which were reclassified as at December 31, 2018 in view of the sale of the group's equity interest in LPC through a Share Purchase Agreement signed on October 19, 2018 between Canaria Holdings Corporation (CHC) and Fernwood Holdings, Inc. which was subsequently approved by the Philippine Competition Commission on January 17, 2019. The sale transaction was closed and completed on February 13, 2019, thus paving the way for their derecognition from the consolidated statements of financial position.

**Short-term loans payable** account decreased by P3.99 Billion mainly due to settlements made by the Grocery Retail, Real Estate and Liquor Distribution segments.

**Current portion of long-term borrowing** decreased by P6.1 Million mainly due to amortization of debt issue cost.

**Lease liabilities due within one year** account increased by P82.35 Million from P643.49 Million in December 2018 to P725.85 Million in December 2019 due principally to the net effect of additional leases, interest expense amortization recognized and lease payments made during the current period pertaining current portions.

**Due to related parties** decreased by P22.40 Million mainly due to the settlements made.

**Other current liabilities** decreased by 37.27% from P434.90 Million as at December 31, 2018 to P597.0 Million as at December 31, 2019 relatively due to deposits from tenants and sale of gift certificates during the year by the Grocery Retail segment.

### **Noncurrent Liabilities**

As at December 31, 2019 and December 31, 2018, total non-current liabilities amounted to P32.67 Billion and P31.19 Billion, respectively, for an increase of P1.48 Billion or 4.76%.

**Long-term loans payable-net of current portion** decreased by P1.48 Billion mainly due to the settlements by the Grocery Retail segment of its long term bank loans.

**Lease liabilities** represents the values recognized from long-term lease contracts covering land and buildings utilized by Grocery Retail, Liquor Distributions, Real Estate and Specialty Retail segments pursuant to the retrospective adoption of the new lease accounting standards under PFRS 16 which became effective January 1, 2019. . The account increased by P2.60 Billion from P23.50 Billion in December 2018 to P26.10 Billion in December 2019 due principally to the net effect of additional leases, interest expense amortization recognized and lease payments made during the current year.

**Retirement benefit liability** increased by P447.28 Million mainly due to the net effect of recognition of additional benefit cost during 2019 and the effect of additional remeasurements arising from the effect of changes in financial assumptions and experience adjustments.

**Other non-current liabilities** decreased by P40.12 Million or 9.26% from P433.34 Million in December 2018 to P393.22 Million as at December 31, 2019 due to application of customer deposits and advance rentals by the Real Estate segment.

### **Equity**

As at December 31, 2019 and December 31, 2018, total equity amounted to P102.02 Billion and P85.12 Billion, respectively, for an increase of P16.90 Billion or 19.85%.

**Retirement benefits reserve** pertain to adjustments made in compliance with the accounting standard covering employee benefits. As at December 2019, the account decreased by P108.41 Million due to unrealized loss on re-measurement of defined benefit liability as a result of changes in financial assumptions and experience adjustments.

**Treasury shares** increased by P206.25 million from P1.20 Billion in December 2018 to P1.40 Billion as at December 31, 2019 due to additional buyback by the Parent Company during the year in relation to its existing buyback program.

**Retained earnings** increased by P11.39 Billion or 26.63% from P42.77 Billion in December 2018 to P54.17 Billion as at December 31, 2019 due to profit realized by the Group, net of cash dividend declaration and the effect of adoption of PFRS 16, *Leases*.

**Non-controlling interest** increased by P5.85 Billion or 22.19% from P26.39 Billion in December 2018 to P32.25 Billion as at December 31, 2019 mainly due to share in the consolidated profit and the effect of top-up placement by the Grocery Retail segment.

### Sources and Uses of Cash

A brief summary of cash flow movements is shown below:

	<u>For the years ended December 31</u>	
<i>(In thousands)</i>	<b>2019</b>	2018
Net cash flows from operating activities	<b>P17,139,067</b>	P12,184,405
Net cash flows used in investing activities	<b>(4,544,140)</b>	(5,259,386)
Net cash flows used in financing activities	<b>(5,006,579)</b>	(5,517,456)
<b>Net increase in cash and cash equivalents</b>	<b>P7,617,153</b>	P1,431,763

Net cash generated from operating activities during the current year is basically attributable to the cash generated from operations and effect of the net settlement of trade payable accounts by the Grocery Retail and Liquor Distribution Segment during the year, purchase of inventories for new stores stocking requirements and other related current operating items to support the segment's expansion.

On the other hand, net cash from and used in investing activities mainly pertains to the funds used for additional capital expenditures by the Grocery Retail segment's new stores expansion and additional assets acquisition and capital expenditures by the Real Estate segment and Specialty Retail segment and the proceeds from divestment of Liquigaz.

Net cash used in financing activities principally resulted from the net settlements of bank loans by the Grocery Retail, Liquor Distribution, Real Estate and Parent Company during the year, repayment of principal and interest by the group relating to lease liability, payment of 2019 cash dividends declared and shares buyback program by the Grocery Retail segment and Parent Company.

Management believes that the current levels of internally generated funds from its operating activities and its present cash position enables the Group to meet its immediate future liquidity requirements under its current work program commitments as well as other strategic investment opportunities. With its strong current financial position, this can be augmented through availments from existing untapped banking and credit facilities as and when required.



## Comparative Years 2018 and 2017

The table below shows the consolidated results of operations of the Group for the years ended December 31, 2018 and 2017.

<i>(In Thousands)</i>	2018	%	2017	%	INCREASE (DECREASE)	%
<b>REVENUES</b>	168,210,357	100.00%	145,638,800	100.00%	22,571,556	15.50%
<b>COST OF SALES/SERVICES</b>	139,809,619	83.12%	120,260,991	82.57%	19,548,628	16.26%
<b>GROSS PROFIT</b>	28,400,738	16.88%	25,377,809	17.43%	3,022,929	11.91%
<b>OTHER OPERATING INCOME</b>	2,994,765	1.78%	2,760,841	1.90%	233,924	8.47%
<b>GROSS OPERATING INCOME</b>	31,395,503	18.66%	28,138,650	19.32%	3,256,853	11.57%
<b>OPERATING EXPENSES</b>	18,326,809	10.90%	15,854,229	10.89%	2,472,580	15.60%
<b>INCOME FROM OPERATIONS</b>	13,068,694	7.77%	12,284,421	8.43%	784,273	6.38%
<b>OTHER INCOME (CHARGES)</b>						
- net	(1,301,028)	-0.77%	(1,638,282)	-1.12%	337,254	20.59%
<b>INCOME BEFORE INCOME TAX</b>	11,767,667	7.00%	10,646,139	7.31%	1,121,527	10.53%
<b>INCOME TAX EXPENSE</b>	3,285,862	1.95%	3,175,439	2.18%	110,423	3.48%
<b>NET INCOME FOR THE YEAR</b>	8,481,805	5.04%	7,470,701	5.13%	1,011,104	13.53%
<b>Net Income Attributable to:</b>						
Equity holders of the Parent Company	5,381,485	3.20%	4,731,617	3.25%	649,869	13.73%
Non-controlling interests	3,100,319	1.84%	2,739,084	1.88%	361,235	13.19%
	8,481,805	5.04%	7,470,701	5.13%	1,011,104	13.53%
<b>EPS</b>	0.75975		0.66364			14.48%

### Growth in Revenues

Cosco Capital, Inc. and subsidiaries (the "Group") posted a consolidated revenue of P168.21 Billion for the year ended December 31, 2018 which reflects an increase by P22.57 Billion or representing a growth of 15.50% compared to last year's revenue of P145.64 Billion.

The growth in consolidated revenues in 2018 was largely driven by a combination of the Group's sustained organic growth from its grocery retail segment; sustained revenue growth from the LPG business unit driven by the gradual recovery of global petroleum and gas prices and on the back of a very strong growth in sales volume; increase revenue contributions from the real estate segment with its consistent high capacity utilization of its rental assets portfolio coupled by additional leasable spaces from new commercial assets; and the robust sales performance and growth in revenue contributions from the liquor and wine distribution business segment.

### Growth in Net Income

During the same period, the Group realized a consolidated net income of P8.48 Billion which is higher by P1.01 Billion representing a 13.53% increase as compared to last year's consolidated net income of P7.47 Billion which were restated to reflect the retrospective effect of the adoption of new lease accounting standard on Grocery Retail, Real Estate, Liquor Distribution and Specialty Retail segments' net income.. Net income attributable to equity holders of the parent company (PATMI) amounted to P5.38 Billion in 2018 which increased by about P649.87 Million or 13.73% as compared to the 2017 PATMI amounting to P4.73 Billion.

## **Segment Revenue & Net Income Contributions**

### Grocery Retail Segment

During the year 2018, the Group's grocery retail business segment registered a consolidated revenue contribution amounting to P141.14 Billion or an increase of P16.43 Billion or about 13.18% growth as compared to the segment's revenue contribution of P124.70 Billion of last year brought about by its continued aggressive stores expansion program and management's combined efforts to boost revenue.

Consolidated net income contribution in 2018 amounted to P6.2 Billion which increased by P705.38 Million or 12.84% as compared to the net income contribution of P5.49 Billion in 2017, which were restated to reflect the retrospective effect of the adoption of new lease accounting standard. This includes the one-time gain amounting to around P363 Million realized from the sale of shares in PG Lawson. Excluding this non-recurring item, core consolidated net income amounted to P5.84 Billion which still registered a growth of 3.2% year on year from the previous year.

### Real Estate Segment

The commercial real estate business segment contributed P1.38 Billion to the Group's consolidated revenue in 2018 representing a growth of about P88.69 Million or 6.87% of the segment's revenue contribution in 2017 amounting to P1.29 Billion. This was mainly attributable to the additional leasable space from four (4) new mall assets added to its portfolio, where three assets were opened during the first quarter of 2018 and one in December 2017, higher occupancy rates and higher income from its oil storage tanks business unit operating within the Subic Bay Freeport.

Consolidated net income contribution in 2018 amounted to about P1.08 Billion which increased by about P138.37 Million or 14.60% as compared to the net income contribution of P947.59 Million in 2017, which were restated to reflect the retrospective effect of the adoption of new lease accounting standard.

### Liquor Distribution Segment

The liquor distribution business segment contributed about P6.51 Billion to the Group's consolidated revenue in 2018 representing an increase by about P1.82 Billion or 38.77% higher as compared to the 2017 revenue contribution of P4.69 Billion mainly attributable to its strong sales performance of its brandy category particularly the Alfonso brand and on the back of its aggressive sales and marketing campaign during the year.

Consolidated net income contribution in 2018 amounted to about P743.18 Million which increased by P44.63 Million or 6.39% as compared to the net income contribution in 2017 amounting to P698.58 Million, which was restated to reflect the retrospective effect of the adoption of new lease accounting standard.

### Specialty Retail

The LPG business unit contributed about P17.09 Billion to the Group's consolidated revenue in 2018 representing an increase by about P3.96 Billion or 30.18% higher as compared to the 2017 revenue contribution of P13.13 Billion mainly attributable to the effects of the continued improvements and recovery of global petroleum and gas prices in 2018 and on the back of a 9.8% growth in volume sold.

As a result, net income contribution in 2018 amounted to P626.23 Million which increased by P157.03 Million or 33.47% as compared to that of 2017 amounting to P469.20 Million.

On the other hand, our office supplies and technology retail business unit contributed about P2.09 Billion to the Group's consolidated revenue in 2018 representing an increase by about P265.44 Million or 14.58% higher as compared to the 2017 revenue contribution of P1.82 Billion mainly attributable to its strong same store sales growth (SSSG) of 9.09% and its continuing stores network expansion program, enhanced product offerings and aggressive sales and marketing campaign. Net income contribution in 2018 amounted to about P65.53 Million which increased by P5.53 Million or 11.07% as compared to the net income contribution in 2017 amounting to P58.99 Million, which were restated to reflect the retrospective effect of the adoption of new lease accounting standard.

## **Segment Operating & Financial Highlights**

### **Net Sales**

For the year ended December 31, 2018, the Grocery Retail segment posted a consolidated net sales of P141,139 million for an increase of P16,436 million or a growth of 13.2% compared to P124,703 million in 2017. New organic stores put up in 2017 were fully operating in 2018 increasing consolidated net sales in addition to robust like for like stores sales growth and revenue contributions from new organic stores established during the year.

Like for like consolidated sales performance indicators of the group for the year ended December 31 are as follow:

	<b>PGOLD</b>	<b>S&amp;R</b>
Net Sales	<b>5.7%</b>	<b>8.4%</b>
Net Ticket	<b>8.0%</b>	<b>8.1%</b>
Traffic	<b>-2.1%</b>	<b>0.2%</b>

### **Gross Profit**

For the year ended December 31, 2018, the Grocery Retail segment realized an increase of 10.3% in consolidated gross profit from P21,688 million in 2017 at 17.4% margin to P23,929 million at 17.0% margin in 2018, driven by strong sales growth from new and old stores and sustained continuing suppliers' support through additional trade discounts in the form of rebates and conditional discounts granted during the period.

### **Other Operating Income**

Other operating income increased by P249 million or 9.2% from P2,692 million in 2017 to P2,941 million in 2018. This is attributable to increases in concess income and membership income driven mainly by full operation of 2017 new stores and contribution from new stores opened in 2018. In 2017, S&R tied up with Unioil and offered a P3.00 discount on gasoline and P2.00 off on diesel per liter, to all members using their issued membership cards with magnetic stripes. In March 14 to 18 and September 26 to 30, 2018, S&R held its 5-day sale Members' Treat.

### **Operating Expenses**

Operating expenses increased by P2,028 million or 13.9% from P14,611 million in the year ended December 31, 2017 to P16,639 million in 2018. The incremental operating expenses were mainly attributable to manpower costs, utilities, depreciation expense and taxes, principally related to the establishment and operation of new organic stores.

### **Other Expense - net**

Other expenses net of other income amounted to P1,528 million for year ended December 31, 2018 due to recognition of a one-time gain on sale of investment in joint venture amounting to P363 million. Interest income increased in the year ended December 2018 due to higher placement in short-term investment as compared in 2017.

### **Net Income**

For the year ended December 31, 2018, the Grocery Retail segment earned a consolidated net income of P6,200 million at 4.4% net margin and an increase of 12.8% from P5,494 million at 4.4% net margin in 2017. Excluding the one-time gain on sale of investment in joint venture and share in equity investments, core consolidated net income for the year ended December 31, 2018 amounted to P5,820 million at 4.1% net margin and an increase of 3.2%. This was principally driven by the continuous organic expansion of the Grocery Retail segment's grocery retail outlets on the back of a sustained strong consumer demand. This has been augmented by combined management strategies and programs to boost revenue contributions from both the base stores as well as new stores established in 2018.

### **Commercial Real Estate**

The Group's Real Estate Segment posted P2.03 Billion in revenues for the year ended December 31, 2018 or a 8.38% increase from P1.87 Billion from 2017. This was mainly attributable to the additional leasable space from its four new mall assets, where three assets opened during the first quarter of 2018 and one in December 2017, higher occupancy rates and higher income from its oil storage tanks business unit operating within the Subic Bay Freeport.

Income from operations before depreciation increased by P82.53 Million or 9.7% from P1.45 Billion in 2017 to P1.53 Billion for the year ended December 31, 2018.

Net income for the year ended December 31, 2018 amounted to P1.08 Billion or a 6.2% increase from last year's P922.09 Million brought about by additional rental revenue.

### **Liquor Distribution**

Revenues generated by the Liquor Distribution Segment increased to P8.75 Billion in 2018 or 31.28% growth from last year's P6.66 Billion on the back of a robust sales performance in volume (no. of cases) sold which grew by about 32%. The growth in revenue is still principally driven by its brandy portfolio which accounts for about 67% of sales augmented by the increase in sales of the other spirits sector. Wines and specialty beverages also experienced dramatic growths in the current period and contributed to the segment's overall sales growth.

Income from operations increased to P1.0 Billion in 2018 or 12.43% higher from last year's P896.28 Million.

Net income for the 2018 period increased by P107.13 Million from P631.23.46 Million in 2017 to P738.37 Million in 2017 or 16.97% growth.

### **Specialty Retail**

#### *Office Warehouse*

As at December 31, 2018, the company had expanded its retail network to 88 stores from 46 stores at acquisition date. Net selling area also increased to 16,738 sq.m. or a growth by 4.97% in 2018 as compared to 2017.

Sales revenue increased to P2.09 Billion in 2018 or 14.49% higher as compared to the 2017 revenue of P1.82 Billion mainly attributable to its continuing organic stores network expansion program, enhanced product offerings as well as aggressive sales and marketing campaign which also drove a strong SSSG of 9.09% in 2018.

Net income in 2018 amounted to about P65.58 Million which increased by P10.01 Million or 18.0% as compared to the net income in 2017 amounting to P55.57 Million.

#### *Liquigaz*

The company started the commercial operation of its storage facility expansion project in Sariaya, Quezon (Southern Luzon) during the first quarter in 2018. When completed and fully operational, this new facility, which will increase the company's existing capacity to 25,000 MT, will not only strategically serve the Southern Luzon market but also serve as a platform for its planned geographic expansion into the Visayas and Mindanao markets.

Revenues generated in 2018 amounted to P17.09 Billion or 30.18% higher as compared to the 2017 revenues of P13.13 Billion mainly attributable to both the continued improvements in global petroleum and gas prices and a 9.80% growth in sales volume in 2018. As a result, net income in 2018 amounted to P626.23 Million which increased by P157.03 Million or 33.47% as compared to that of 2017 amounting to P469.20 Million.

On October 19, 2018, Liquigaz parent company, Canaria Holdings Corporation (CHC) and Fernwood Holdings, Inc. signed a Share Purchase Agreement whereby Canaria sells all its shares in Liquigaz Philippines Corporation and Calor Phils. Holdings, Inc. to Fernwood Holdings, Inc. The transaction was subsequently approved by the Philippine Competition Commission on January 17, 2019 paving the way for its closing and completion on February 13, 2019. The divestment transaction and other relevant information will be reflected in the group's financial reports for the first quarter of 2019.

## Consolidated Statements of Financial Position

Shown below are the comparative consolidated financial position of the Group:

<i>(In Thousands)</i>	2018	%	2017	%	INCREASE (DECREASE)	%
<b>ASSETS</b>						
<b>Current Assets</b>						
Cash and cash equivalents	16,784,861	12.00%	15,353,098	11.90%	1,431,763	9.33%
Receivables - net	6,630,927	4.74%	7,902,970	6.12%	(1,272,044)	-16.10%
Financial asset at FVOC	7,026	0.01%	8,618	0.01%	(1,592)	-18.47%
Financial asset at FVPL	36,503	0.03%	46,888	0.04%	(10,385)	-22.15%
Inventories	23,931,657	17.12%	21,194,691	16.43%	2,736,966	12.91%
Due from related parties	47,971	0.03%	74,354	0.06%	(26,382)	-35.48%
Prepayments and other current assets	2,609,349	1.87%	2,159,188	1.67%	450,162	20.85%
	50,048,293	35.80%	46,739,806	36.22%	3,308,488	7.08%
Assets-held-for sale	7,320,895	5.24%	-	0.00%	7,320,895	100.00%
<b>Total current assets</b>	<b>57,369,188</b>	<b>41.03%</b>	<b>46,739,806</b>	<b>36.22%</b>	<b>10,629,382</b>	<b>22.74%</b>
<b>Noncurrent Assets</b>						
Property and equipment - net	26,343,793	18.84%	26,622,703	20.63%	(278,910)	-1.05%
Right-of-use assets	20,082,426	14.36%	18,164,367	14.08%	1,918,059	10.56%
Investment properties - net	10,836,618	7.75%	10,753,607	8.33%	83,011	0.77%
Intangible assets	21,095,502	15.09%	22,776,064	17.65%	(1,680,562)	-7.38%
Investments	603,175	0.43%	933,797	0.72%	(330,622)	-35.41%
Deferred oil and mineral exploration costs	123,365	0.09%	122,948	0.10%	417	0.34%
Deferred tax assets-net	377,910	0.27%	278,008	0.22%	99,902	35.94%
Other non-current assets	2,987,211	2.14%	2,638,683	2.05%	348,528	13.21%
<b>Total noncurrent assets</b>	<b>82,450,001</b>	<b>58.97%</b>	<b>82,290,178</b>	<b>63.78%</b>	<b>159,823</b>	<b>0.19%</b>
<b>Total Assets</b>	<b>139,819,189</b>	<b>100.00%</b>	<b>129,029,984</b>	<b>100.00%</b>	<b>10,789,206</b>	<b>8.36%</b>
<b>LIABILITIES</b>						
<b>Current Liabilities</b>						
Accounts payable and accrued expenses	13,016,166	9.31%	13,788,692	10.69%	(772,526)	-5.60%
Income tax payable	930,909	0.67%	1,032,749	0.80%	(101,840)	-9.86%
Short-term loans payable	4,866,300	3.48%	5,562,500	4.31%	(696,200)	-12.52%
Current portion of long-term borrowing	49,999	0.04%	2,443,402	1.89%	(2,393,404)	-97.95%
Lease liabilities due within one year	725,846	0.52%	643,493	0.50%	82,353	12.80%
Due to relate parties	1,365,863	0.98%	849,772	0.66%	516,091	60.73%
Other current liabilities	434,901	0.31%	509,498	0.39%	(74,597)	-14.64%
	21,389,984	15.30%	24,830,106	19.24%	3,440,122)	-13.85%
Liabilities-held-for sale	1,834,651	1.31%	-	0.00%	1,834,651	100.00%
<b>Total current liabilities</b>	<b>23,224,634</b>	<b>16.61%</b>	<b>24,830,106</b>	<b>19.24%</b>	<b>(1,605,472)</b>	<b>-6.47%</b>
<b>Noncurrent Liabilities</b>						
Retirement benefit liability	508,533	0.36%	592,387	0.46%	(83,854)	-14.16%
Lease liabilities	23,496,626	16.81%	20,906,226	16.20%	2,590,400	12.39%
Deferred tax liabilities	548,200	0.39%	515,657	0.40%	32,543	6.31%
Long term loans payable - net of debt issue cost	6,572,209	4.70%	4,782,209	3.71%	1,790,000	37.43%
Other non-current liabilities	433,342	0.31%	421,929	0.33%	11,412	2.70%
<b>Total noncurrent liabilities</b>	<b>31,558,911</b>	<b>22.57%</b>	<b>27,218,409</b>	<b>21.09%</b>	<b>4,340,502</b>	<b>15.95%</b>
<b>Total Liabilities</b>	<b>54,783,545</b>	<b>39.18%</b>	<b>52,048,515</b>	<b>40.34%</b>	<b>2,735,030</b>	<b>5.25%</b>
<b>EQUITY</b>						
Capital stock	7,405,264	5.30%	7,405,264	5.74%		0.00%
Additional paid-in capital	9,634,644	6.89%	9,634,644	7.47%		0.00%
Retirement benefits reserve	114,048	0.08%	28,591	0.02%	85,457	298.90%
Other reserve	3,420	0.00%	5,013	0.00%	(1,592)	-31.76%
Treasury shares	(1,197,727)	-0.86%	(628,203)	-0.49%	(569,524)	90.66%
Retained earnings	42,216,430	30.19%	36,853,901	28.56%	5,362,529	14.55%
<b>Total Equity Attributable to Equity Holders of Parent Company</b>	<b>58,176,080</b>	<b>41.61%</b>	<b>53,299,210</b>	<b>41.31%</b>	<b>4,876,871</b>	<b>9.15%</b>
Non-controlling interest	26,859,564	19.21%	23,682,259	18.35%	3,177,305	13.42%
<b>Total Equity</b>	<b>85,035,645</b>	<b>60.82%</b>	<b>76,981,469</b>	<b>59.66%</b>	<b>8,054,176</b>	<b>10.46%</b>
<b>Total Liabilities and Equity</b>	<b>139,819,189</b>	<b>100.00%</b>	<b>129,029,984</b>	<b>100.00%</b>	<b>10,789,206</b>	<b>8.36%</b>



### **Current Assets**

**Cash and cash equivalents** amounted to P16.78 Billion as at December 31, 2018 with an increase of P1.43 Billion or 9.33% from December 31, 2017 balance. The increase was due basically to the net effect of the net operating cash flows, collection of receivables and settlement of trade and non-trade payables principally from the Grocery Retail Segment and Parent Company, payment of 2017 cash dividends, settlement of loans and payments for capital expenditures during the period.

**Receivables** decreased by 16.10% from December 31, 2017 balance of P7.90 Billion to this year's balance of P6.63 Billion due mainly to the collections made and reclassification to assets held-for-sale.

**Assets held-for-sale** pertain to current and noncurrent assets of Liguigaz Philippine Corporation (LPC) which were reclassified in view of the sale of the group's equity interest in LPC) through a Share Purchase Agreement signed on October 19, 2018 between Canaria Holdings Corporation (CHC) and Fernwood Holdings, Inc. which was subsequently approved by the Philippine Competition Commission on January 17, 2019.

**Financial assets at fair value through comprehensive income (FVOC)** decreased by 11.31% from December 31, 2017 balance of P8.62 Million to this year's balance of P7.64 Million due mainly to the effect of changes in stock prices.

**Financial assets at fair value through profit or loss (FVPL)** decreased by 22.15% from December 31, 2017 balance of P46.89 Million to this year's balance of P36.50 Million due mainly to the effect of changes in stock market prices.

**Inventories** increased by 12.91% from 2017 balance of P21.19 Billion to this year's balance of P23.93 Billion due additional stocking requirement of existing and new operating stores, as well as the additional stocking requirements of the Liquor Distribution segment. Bulk of the inventory account pertains to the merchandise inventory stocks of the Grocery Retail Segment amounting to P19.73 Billion.

**Prepaid expenses and other current assets** increased by P450.16 Million or 20.85% at the end of December 2018, mainly due to prepayments made for advertising, prepayments for taxes and licenses, availment of new policies for insurance of new stores and advance payment of rent for soon to open stores by Grocery Retail and Liquor Distribution segments.

**Due from related parties** decreased by P26.38 Million at the end of December 2018, due primarily to settlements made.

### **Non-current Assets**

As at December 31, 2018 and 2017, total non-current assets amounted to P82.45 Billion or 58.97% of total assets, and P82.29 Billion or 63.78% of total assets, respectively, for a increase of P159.82 Million or 0.19%.

**Property and equipment-net** pertains to the buildings and equipment mostly owned by the Grocery Retail segment. Book values of property and equipment decreased by P278.71 Million from P26.62 Billion in December 2017 to P26.34 Billion in December 2018 due principally to capital expenditures pertaining to new stores established by the Grocery Retail Segment and the effect of reclassifying the fixed assets owned by LPC to assets held-for-sale.

**Right-of-use assets (ROU)** represents the values recognized from long-term lease contracts covering land and buildings utilized by Grocery Retail, Real Estate, Liquor Distributions and Specialty Retail segments pursuant to the retrospective adoption of the new lease accounting standards under PFRS 16 which became effective January 1, 2019. . Book values of ROU increased by P1.92 Billion from P18.6 Billion in December 2017 to P20.08 Billion in December 2018 due principally to additional ROU assets recognized from new lease contracts entered into pertaining to new organic stores established in the current period net of depreciation recognized during the same year.

**Investment properties-net** pertains to the land, buildings and equipment owned by the Real Estate segment. Book values of investment properties increased by P83.01 Million from P10.75 Billion in December 2017 to P10.84 Billion in December 2018.

**Investments** decreased by P322.74 Million from P933.80 Million in December 2017 to P611.05 Million in December 2018 primarily due to the sale of investment in PG Lawson joint venture net of additional investments in Ayagold Retailers by the Grocery Retail segment and reclassification to assets held-for-sale by LPC.

**Intangibles and goodwill-net** decreased by P1.63 Billion from P22.77 Billion in December 2017 to P21.14 Billion in December 2018 primarily due to the reclassification of goodwill pertaining to LPC to assets held-for-sale.

**Deferred tax assets** increased by P99.90 Million or 35.94% from P278.01 Million in December 2017 to P377.91 Million in December 2018 resulting mainly from the recognition of deferred tax assets from the adoption of new lease accounting for leases.

**Other non-current assets** increased by P348.53 Million from P2.64 Billion in December 2017 to P2.99 Billion in December 2018. About 78% of these assets are attributable to the Grocery Retail Segment and the increase was primarily due to additional security deposits, advance payment to contractors and advance rentals in relation to new leases acquired for new stores development pipeline as well as the accrued rental income pertaining to future periods in accordance with the lease accounting standards under PAS 17.

### **Current Liabilities**

As at December 31, 2018 and 2017, total current liabilities amounted to P23.22 Billion and P24.83 Billion respectively, for a decrease of P1.60 Billion or 6.47%.

About 86% of **accounts payable and accrued expenses** pertains to the trade payable to suppliers by the Grocery Retail Segment and the balance mostly to the contractors and suppliers of the Real Estate, Liquor Distribution and Specialty Retail segments. The decrease by P772.53 Million or 5.60% was primarily due to net settlement of trade and non-trade liabilities and payment of dividends by the Grocery Retail, Real Estate, Specialty and Parent Company in 2017.

**Lease liabilities due within one year** account increased by P82.35 Million from P643.49 Million in December 2017 to P725.85 Million in December 2018 due principally to the net effect of additional leases, interest expense amortization recognized and lease payments made during the current period pertaining current portions.

Significant portion of the **income tax payable** pertains to that of the Grocery Retail segment. The decrease by P101.84 Million from P1.03 Billion as at December 2017 to P930.91 Million as at December 31, 2018 is mainly due to settlement of income tax pertaining to 2017 and the reclassification by LPC to liabilities directly related to assets held-for-sale.

**Liabilities directly related to assets held-for-sale** pertain to current and noncurrent liabilities under LPC which were reclassified in view of the sale of the group's equity interest in LPC through a Share Purchase Agreement signed on October 19, 2018 between Canaria Holdings Corporation (CHC) and Fernwood Holdings, Inc. which was subsequently approved by the Philippine Competition Commission on January 17, 2019.

**Short-term loans payable** account decreased by P696.20 Million mainly due to settlements made by the Grocery Retail, Real Estate, Specialty Retail and Liquor Distribution segments.

**Current portion of long-term borrowing** decreased by P2.39 Billion mainly due to settlements made by the Grocery Retail segment and Parent Company and the effect of reclassification to long term loans resulting from refinancing.

**Due to related parties** increased by P516.09 Million mainly due to the additional advances.

**Other current liabilities** decreased by 14.64% from P509.50 Million as at December 31, 2017 to P434.90 Million as at December 31, 2018 relatively due to redemption of gift checks and perks points benefits by the Grocery Retail segment.

### **Noncurrent Liabilities**

As at December 31, 2018 and December 31, 2017, total non-current liabilities amounted to P31.56 Billion and P27.22 Billion, respectively, for an increase of P4.34 Billion or 15.95%.

**Long-term loans payable-net of current portion** increased by P1.79 Billion mainly due to the Grocery Retail segment's refinancing of maturing long term loans.

**Lease liabilities** represents the values recognized from long-term lease contracts covering land and buildings utilized by Grocery Retail and Specialty Retail segments pursuant to the retrospective adoption of the new lease accounting standards under PFRS 16 which became effective January 1, 2019. . The account increased by P2.59 Billion from P20.91 Billion in December 2018 to P23.50 Billion in December 2019 due principally to the net effect of additional leases, interest expense amortization recognized and lease payments made during the current year.

**Retirement benefit liability** decreased by P83.85 Million mainly due to the net effect of recognition of additional benefit cost during 2018 and the reclassification to liabilities directly related to assets held-for-sale.

**Other non-current liabilities** increased by P11.41 million or 2.7% from P421.93 Million in December 2017 to P433.34 Million as at December 31, 2018 due to recognition of advance rental and deposits.

### **Equity**

As at December 31, 2018 and December 31, 2017, total equity amounted to P85.03 Billion and P76.98 Billion, respectively, for an increase of P8.05 Billion or 10.46%.

**Retirement benefits reserve** pertain to adjustments made in compliance with the accounting standard covering employee benefits. As at December 2018, the account increased by P85.46 million due to unrealized gain on re-measurement of defined benefit liability.

**Treasury shares** increased by P569.52 million from P628.20 Million in December 2017 to P1.20 Billion as at December 31, 2018 due to additional buyback by the Parent Company during the year in relation to the buyback program.

**Retained earnings** increased by P5.36 Billion or 14.55% from P36.85 Billion in December 2017 to P42.22 Billion as at December 31, 2018 due to profit realized by the Group.

**Non-controlling interest** increased by P3.18 Billion or 13.42% from P23.68 Billion in December 2017 to P26.86 Billion as at December 31, 2018 mainly due to share in the consolidated profit.

### Sources and Uses of Cash

A brief summary of cash flow movements is shown below:

<i>(In thousands)</i>	<u>For the years ended December 31</u>	
	<b>2018</b>	2017
Net cash flows from (used in) operating activities	<b>P10,926,204</b>	P8,774,641
Net cash flows used in investing activities	<b>(5,853,974)</b>	(4,503,325)
Net cash flows used in financing activities	<b>(3,640,464)</b>	(1,505,747)
<b>Net increase in cash and cash equivalents</b>	<b>P1,431,763</b>	P2,718,634

Net cash generated from operating activities during the current year is basically attributable to the cash generated from operations and effect of the net settlement of trade payable accounts by the Grocery Retail and Liquor Distribution Segment during the year, purchase of inventories for new stores stocking requirements and other related current operating items to support the segment's expansion.

On the other hand, net cash used in investing activities mainly pertains to the funds used for additional capital expenditures by the Grocery Retail segment's new stores expansion and additional assets acquisition and capital expenditures and short term investments by the Real Estate segment and Specialty Retail segment.

Net cash used in financing activities principally resulted from the net settlements of bank loans by the Grocery Retail, Specialty Retail segments and Parent Company during the year, repayment by the group of principal and interest relating to lease liability, payment of 2018 cash dividends declared and shares buyback program by the Grocery Retail segment and Parent Company.

Management believes that the current levels of internally generated funds from its operating activities and its present cash position enables the Group to meet its immediate future liquidity requirements under its current work program commitments as well as other strategic investment opportunities. With its strong current financial position, this can be augmented through availments from existing untapped banking and credit facilities as and when required.

## Material Events and Uncertainties

Below is the discussion and analysis of material events and uncertainties known to management that would address the past and would have an impact on future operations:

- (i) Seasonal aspects that had a material effect on the financial condition or results of the Group's operations includes retail and liquor business which sales tend to peak during the gift-giving Christmas season;
- (ii) There are no changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years;
- (iii) There are no material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period;
- (iv) There are no contingent liabilities or assets since the last statement of financial position period;
- (v) Sources of liquidity – Funding will be sourced from internally generated cash flow, cash recently received from the sale of shares to the equity market and from debt market;
- (vi) There are no events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation;
- (vii) There are no material commitments for capital expenditures other than those performed in the ordinary course of trade or business;
- (viii) There are no known trends, events or uncertainties that have had or that are reasonably expected to have a material impact on the revenues or income from continuing operations;
- (ix) There are no significant elements of income not arising from continuing operations;
- (x) Due to the Group's sound financial condition, there are no foreseeable trends or events that may have material impact on its short-term or long-term liquidity.

## Item 6. Management's Discussion and Analysis of Operations

The following discussion and analysis of the Group's results of operations, financial condition and certain trends, risks and uncertainties that may affect the Group's business should be read in conjunction with the auditors' reports and the Group's 2017 audited consolidated financial statements and notes attached herewith as Annex "B".

### Key Performance Indicators

The following financial ratios are considered by management as key performance indicators of the Group's operating results as well as its financial condition:

- Return on investment (Net income/ Ave. stockholders' equity) - measures the profitability of stockholders' investment
- Profit margin (Net income/ Net revenue) - measures the net income produced for each peso of sales
- EBITDA to interest expense (EBITDA/ Interest expense) – measures the ability of the Group to pay interest of its outstanding debts
- Current ratio (Current asset/ Current liabilities) - measures the short-term debt-paying ability of the Group
- Asset turnover (Net revenue/ Average total assets) - measures how efficiently assets are used to generate revenues
- Asset to equity ratio (Assets/ Shareholders' equity) - indicates the Group's leverage used to finance the firm
- Debt to equity ratio (Liabilities/ Shareholders' Equity) -measure of a Group's financial leverage

The table below shows the key performance indicators for the past three years:

<b>Performance Indicators</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Return on investment	<b>10.43%</b>	10.88%	11.16%
Profit margin	<b>5.37%</b>	5.78%	5.98%
EBITDA to interest expense	<b>34.14x</b>	36.28x	27.37x
Current ratio	<b>1.97:1</b>	2.14:1	2.07:1
Asset turnover	<b>1.36:1</b>	1.29:1	1.25:1
Asset to equity	<b>1.42:1</b>	1.44:1	1.49:1
Debt to equity ratio	<b>0.42:1</b>	0.44:1	0.49:1

These financial ratios were calculated based on the consolidated financial statements of Cosco Capital, Inc. and its subsidiaries as described more appropriately in Note 1 to the audited financial statements attached in Annex A hereof.



## Comparative Years 2017 and 2016

The table below shows the consolidated results of operations of the Group for the years ended December 31, 2017 and 2016.

<i>(In Thousands)</i>	2017	%	2,016	%	<b>INCREASE (DECREASE)</b>	
<b>REVENUES</b>	<b>P145,749,829</b>	<b>100.00%</b>	P129,186,201	100.00%	<b>P16,563,628</b>	<b>12.82%</b>
<b>COST OF SALES/SERVICES</b>	<b>121,428,225</b>	<b>83.31%</b>	107,273,972	83.04%	<b>14,154,253</b>	<b>13.19%</b>
<b>GROSS PROFIT</b>	<b>24,321,604</b>	<b>16.69%</b>	21,912,229	16.96%	<b>2,409,375</b>	<b>11.00%</b>
<b>OTHER OPERATING INCOME</b>	<b>3,580,941</b>	<b>2.46%</b>	3,361,826	2.60%	<b>219,114</b>	<b>6.52%</b>
<b>GROSS OPERATING INCOME</b>	<b>27,902,545</b>	<b>19.14%</b>	25,274,056	19.56%	<b>2,628,489</b>	<b>10.40%</b>
<b>OPERATING EXPENSES</b>	<b>16,426,309</b>	<b>11.27%</b>	14,467,476	11.20%	<b>1,958,833</b>	<b>13.54%</b>
<b>INCOME FROM OPERATIONS</b>	<b>11,476,236</b>	<b>7.87%</b>	10,806,579	8.37%	<b>669,656</b>	<b>6.20%</b>
<b>OTHER INCOME (CHARGES) - net</b>	<b>(351,850)</b>	<b>-0.24%</b>	(249,135)	-0.19%	<b>(102,716)</b>	<b>41.23%</b>
<b>INCOME BEFORE INCOME TAX</b>	<b>11,124,386</b>	<b>7.63%</b>	10,557,445	8.17%	<b>566,941</b>	<b>5.37%</b>
<b>INCOME TAX EXPENSE</b>	<b>3,291,071</b>	<b>2.26%</b>	3,088,051	2.39%	<b>203,021</b>	<b>6.57%</b>
<b>NET INCOME FOR THE YEAR</b>	<b>P7,833,314</b>	<b>5.37%</b>	P7,469,394	5.78%	<b>P363,920</b>	<b>4.87%</b>
<b>Net Income Attributable to:</b>						
Equity holders of the Parent Company	<b>P4,924,646</b>	<b>3.38%</b>	P4,734,101	3.66%	<b>P190,545</b>	<b>4.02%</b>
Non-controlling interests	<b>2,908,668</b>	<b>2.00%</b>	2,735,293	2.12%	<b>173,375</b>	<b>6.34%</b>
	<b>P7,833,314</b>	<b>5.37%</b>	P7,469,394	5.78%	<b>P363,920</b>	<b>4.87%</b>

### Growth in Revenues

Cosco Capital, Inc. and subsidiaries (the "Group") posted a consolidated revenue of P145.75 Billion for the year ended December 31, 2017 which reflects an increase by P16.56 Billion or representing a growth of 12.82% compared to last year's revenue of P129.18 Billion.

The growth in consolidated revenues in 2017 was largely driven by a combination of the Group's sustained organic growth from its grocery retail segment; exceptional revenue growth from the LPG business unit driven by the gradual recovery of global petroleum and gas prices and on the back of a very strong growth in sales volume; revenue contributions from the real estate segment with its consistent high capacity utilization of its rental assets portfolio; and sustained growth in revenue contributions from the liquor and wine distribution business segment;

### Growth in Net Income

During the same period, the Group realized a consolidated net income of P7.83 Billion which is higher by P363.92 Million representing a 4.87% increase as compared to last year's consolidated net income of P7.47 Billion. Net income attributable to equity holders of the parent company (PATMI) amounted to P4.92 Billion in 2017 which increased by about P190 Million or 4.02% as compared to the 2016 PATMI amounting to P4.73 Billion.

## **Segment Revenue & Net Income Contributions**

### Grocery Retail Segment

During the year 2017, the Group's grocery retail business segment registered a consolidated revenue contribution amounting to P124.49 Billion or an increase of P11.90 Billion or 10.6% growth as compared to the segment's revenue contribution of P112.59 Billion in 2016 brought about by its continued aggressive stores expansion program both organic and strategic acquisitions.

Consolidated net income contribution in 2017 amounted to P5.84 Billion which increased by P314 Million or 5.68% as compared to the net income contribution of P5.52 Billion in 2016.

### Real Estate Segment

The commercial real estate business segment contributed P1.61 Billion to the Group's consolidated revenue in 2017 representing a decrease of about P178.66 Million or 9.96% as compared to last year amounting to P1.79 Billion principally brought about by the complete temporary closure of one of its recently acquired mall assets to give way for a major renovation and refurbishments and the net downward revenue effect resulting from effective shortening of lease contract term involving an outgoing and a new locator on its petroleum storage tanks facility in Subic Bay in accordance with the requirements of current lease accounting standards.

Net income contribution in 2017 amounted to about P997.23 Billion which correspondingly decreased by about P55.96 Million or 5.31% as compared to the net income contribution of P1.053 Billion in 2016.

### Liquor Distribution Segment

Similarly, the liquor distribution business segment contributed about P4.69 Billion to the Group's consolidated revenue during the same period in 2017 representing an increase by about P350.17 Million or 8.06% higher as compared to the 2016 revenue contribution of P4.34 Billion on the back of its growth in volume of cases sold during the year mainly attributable to its aggressive sales and marketing campaign.

Net income contribution in 2017 amounted to about P696.12 Million which decreased by P52.62 Million or 7.03% as compared to the net income contribution in 2016 amounting to P748.74 Million on account of incremental marketing and promotion costs and expenses.

### Specialty Retail

Liquigaz Philippines Corporation contributed about P13.3 Billion to the Group's consolidated revenue during the same period in 2017 representing an increase by about P4.20 Billion or 47.07% higher as compared to the 2016 revenue contribution of P8.92 Billion mainly attributable to the effects of the improvements and recovery of global petroleum and gas prices in 2017 and on the back of an exceptional growth in volume sold. Net income contribution in 2017 amounted to P469.20 Million or a substantial increase by P196.01 Million or 71.75% as compared to the net income contribution in 2016 amounting to P273.18 Million.

On the other hand, Office Warehouse, Inc. contributed about P1.82 Billion to the Group's consolidated revenue during the year 2017 representing an increase by about P289.17 Million or 18.88% higher as compared to the 2016 revenue contribution of P1.53 Million mainly attributable to its strong same store sales growth of 5.88% and its continuing stores network expansion program, enhanced product offerings and aggressive sales and marketing campaign. Net income contribution in 2017 amounted to about P58.99 Million which increased by P1.54 Million or 3.0% as compared to the net income contribution in 2016 amounting to P57.45 Million.

## **Segment Operating & Financial Highlights**

### Grocery Retail

#### **Net Sales**

For the year ended December 31, 2017, the Grocery Retail segment posted a consolidated net sales of P124,491 million for an increase of P11,902 million or a growth of 10.6% compared to P112,589 million in the same period of 2016. New stores put up in 2016 were fully operating in 2017 increasing consolidated net sales in addition to robust like for like stores sales growth and revenue contributions from new organic stores/outlets put up as well as acquisitions made during the same period. Like for like consolidated sales performance indicators of the group for the year ended December 31 are as follow:

	<b>PGOLD</b>	<b>S&amp;R</b>
Net Sales	<b>4.4%</b>	<b>6.5%</b>
Net Ticket	<b>3.9%</b>	<b>5.3%</b>
Traffic	<b>0.5%</b>	<b>1.2%</b>

#### **Gross Profit**

For the year ended December 31, 2017, the Grocery Retail segment realized an increase of 11.4% in consolidated gross profit from P18,538 million in 2016 to P20,655 million in 2017 of the same period, driven by strong sales growth from new and old stores and consistent and continuing suppliers' support through additional trade discounts in the form of rebates and conditional discounts granted during the period. Consolidated gross profit margin remain stable at 16.6% and 16.5% for the years ended December 31, 2017 and 2016, respectively.

#### **Other Operating Income**

Other operating income increased by P247 million or 7.6% from P3,266 million in the year ended December 31, 2016 to P3,513 million in 2017 of the same period. This is attributable to increase in display allowance, rent income, membership income and other supplier supports driven mainly by new stores offering new spaces for product displays and booths for third party retailers and other promotions to increase customer and supplier's supports.

## **Operating Expenses**

Operating expenses increased by P1,808 million or 13.2% from P13,707 million in the year ended December 31, 2016 to P15,516 million in 2017 of the same period. The increase was mainly attributable to the Grocery Retail segment's operating costs and expenses in establishing new organic stores and warehouses clubs including the operation of the QSR food service outlets such as manpower costs, as well as rent expenses relative to new lease contracts, supplies expense and business permits and taxes, all related to full year operation of acquired stores and operation of new organic stores.

## **Other Expense - net**

Other expenses net of other income amounted to P268 million and P101 million for the years ended December 31, 2017 and 2016, respectively. The increase was due to interest expenses from additional bank loans availed during the period and recognition of share in net loss of joint venture operations.

## **Net Income**

For the year ended December 31, 2017, the Grocery Retail segment earned a consolidated net income of P5,840 million at 4.7% net margin and an increase of 5.7% from P5,526 million at 4.9% net margin in 2016 of the same period. This was principally driven by the continuous expansion of the Grocery Retail segment both organic as well as strategic acquisitions and investments and combined management strategies and programs to boost revenue contributions from both the base stores as well as new stores complemented by sustained operating efficiencies and strategic costs controls on operating expenses at its current level.

## **Commercial Real Estate**

The Group's Real Estate Segment posted P2.19 Billion in revenues for the year ended December 31, 2017 but registered a slight decrease of about 5.52% from P2.32 Billion revenues in 2016. The net decrease is mainly attributable to the temporary complete closure of one of its recently acquired mall assets which is undergoing reconstruction and refurbishments and the net downward revenue effect resulting from effective shortening of lease contract term involving an outgoing and a new locator on its petroleum storage tanks facility in Subic Bay in accordance with the requirements of current lease accounting standards.

Income from operations before depreciation decreased by P69.26 Million from P1.39 Billion of the year ended December 31, 2016.

Net income for the period amounted to P971.73 Million or 4.99% lower compared to last year's P1.023 Billion.

In December 2017, the group opened its latest community mall asset called Arvo Mall located in Marikina, Rizal which is its third joint development project with Ayala Land with Puregold as its anchor tenant. Also during the year, the group continued its ongoing development and construction pipeline of four (4) other community mall development assets located in Cavite, Muntinlupa, Subic and Las Pinas involving an additional GLA of 5,368 square meters which could be operational within the first half of 2018.

The group also acquired four (4) additional land assets located in Subic, Zambales; Antipolo, Rizal; Laoag, Ilocos Norte, and Maria Aurora, Aurora involving a total land area of 9,834 sq.m., thereby expanding its landbank portfolio to a total of nine (9) assets with a gross land area of 146,148.70 sq.m. It was also awarded as a winning bidder for a property located in Bayawan, Negros Oriental with an area of 12,052 sq. m. also for future development.

## **Liquor Distribution**

Revenue from the Liquor Distribution Segment increased to P6.66 Billion in 2017 or 12.86% growth from last year's P5.90 Billion on the back of a sustained 19% growth in volume of cases sold during the year. Sales mix was still principally driven by its brandy portfolio which accounts for more than 60% of sales augmented by the increase in sales of the spirits sector. Wines and specialty beverages also experienced dramatic growths in the current period and contributed to the segment's overall sales growth.

Income from operations decreased to P823.82 Million in 2017 or 11.36% lower from last year's P929.40 Million due to incremental marketing and promotion expenses incurred to promote sales given its competitive environment.

Net income for the 2017 increased by P46.87 Million or 8.06% from P581.36 million in 2016 to P628.23 Million in 2017.

## **Specialty Retail**

### *Office Warehouse*

Office Warehouse operates a chain of specialty retail outlets engaged in selling school and office supplies, technology products, home/office furniture and equipment and related products. Since its acquisition in May 2014, the company embarked and successfully implemented a strategic organic expansion program through the establishment of additional new organic store outlets within its target market principally in Metro Manila coupled with a diversification of its product offerings. This expansion program has been funded from internally generated funds from its operating profits and cash flows.

As at December 31, 2017, the company had expanded its retail network to 82 stores from 47 stores at acquisition date. Net selling area also increased to 15,945 sq.m. or a growth by 13.78% in 2017 as compared to 2016.

Sales revenues increased to P1.82 Billion in 2017 or 18.92% higher as compared to the 2016 revenue contribution of P1.53 Billion mainly attributable to its continuing stores network expansion program, enhanced product offerings as well as aggressive sales and marketing campaign which also drove a strong SSSG of 5.88% in 2017.

Net income contribution in 2017 amounted to about 58.99 Million which increased by P1.54 Million or 3.0% as compared to the net income contribution in 2016 amounting to P57.45 Million

### *Liquigaz*

The company substantially completed its storage capacity facility expansion project in Sariyaya, Quezon (Southern Luzon) which involved the rehabilitation of an existing 5,100 MT capacity storage tanks for Phase 1 and development and the construction of a jetty and additional 12,000 MT storage tanks for Phase 2 development. When completed and fully operational, this facility will not only strategically serve the Southern Luzon market but also serve as a platform for its geographic expansion into the Visayas and Mindanao markets.

Revenues generated in 2017 amounted to P13.13 Billion or 47.07% higher as compared to the 2016 revenues of P8.93 Billion mainly attributable to the combined effects of the improvement in volume sold and of continued recovery of global petroleum and gas prices in 2017. Net income in 2017 amounted to P469.20 Million which increased by P196.01 Million or 71.75% as compared to that of 2016 amounting to P273.18 Million.

## Consolidated Statements of Financial Position

Shown below are the comparative consolidated financial position of the Group:

(In Thousands)	2017	%	2016	%	INCREASE (DECREASE)	%
<b>A S S E T S</b>						
<b>Current Assets</b>						
Cash and cash equivalents	P15,353,098	13.75%	P12,634,464	12.31%	P2,718,634	21.52%
Receivables - net	7,902,970	7.08%	6,805,704	6.63%	1,095,982	16.12%
Available-for-sale financial assets	8,618	0.01%	8,199	0.01%	419	5.11%
Short-term investments		0.00%	909,928	0.89%	(909,928)	-100.00%
Investment in trading securities	46,888	0.04%	35,109	0.03%	11,779	33.55%
Inventories	21,194,691	18.98%	19,792,366	19.29%	1,402,324	7.09%
Due from related parties	74,354	0.07%	185,136	0.18%	(110,782)	-59.84%
Prepayments and other current assets	3,014,609	2.70%	1,626,699	1.59%	1,387,910	85.32%
	<b>47,595,227</b>	<b>42.63%</b>	<b>41,997,606</b>	<b>40.93%</b>	<b>5,597,621</b>	<b>13.33%</b>
<b>Noncurrent Assets</b>						
Property and equipment - net	26,622,703	23.85%	24,090,074	23.48%	2,532,629	10.51%
Investment properties - net	10,753,607	9.63%	10,010,807	9.76%	742,800	7.42%
Intangible assets	22,776,064	20.40%	22,598,516	22.03%	177,548	0.79%
Investments	933,797	0.84%	926,669	0.90%	7,128	0.77%
Deferred oil and mineral exploration costs	122,948	0.11%	121,382	0.12%	1,566	1.29%
Deferred tax assets-net	64,438	0.08%	116,587	0.11%	(52,150)	-44.73%
Other non-current assets	2,746,788	2.46%	2,736,900	2.67%	9,887	0.36%
	<b>64,020,345</b>	<b>57.37%</b>	<b>60,600,937</b>	<b>59.07%</b>	<b>3,419,408</b>	<b>5.64%</b>
<b>TOTAL ASSETS</b>	<b>P111,643,672</b>	<b>100.00%</b>	<b>P102,598,543</b>	<b>100.00%</b>	<b>P9,017,029</b>	<b>8.79%</b>
<b>LI A B I L I T I E S</b>						
<b>Current Liabilities</b>						
Accounts payable and accrued expenses	P13,790,325	12.35%	P11,775,810	11.48%	P2,014,516	17.11%
Income tax payable	1,032,749	0.93%	1,102,118	1.07%	(69,369)	-6.29%
Short-term loans payable	5,562,500	4.98%	5,362,500	5.23%	200,000	3.73%
Current portion of long-term borrowing	2,443,402	2.19%	164,434	0.16%	2,278,969	-
Due to relate parties	849,772	0.76%	690,335	0.67%	159,437	100.00%
Trust receipts payable	4,091	0.00%		0.00%	4,091	100.00%
Other current liabilities	505,407	0.45%	542,543	0.53%	(37,136)	-6.84%
	<b>24,188,247</b>	<b>21.67%</b>	<b>19,637,739</b>	<b>19.14%</b>	<b>4,550,508</b>	<b>23.17%</b>
<b>Noncurrent Liabilities</b>						
Retirement benefit cost	592,387	0.53%	513,453	0.50%	78,934	15.37%
Deferred tax liabilities	774,280	0.69%	751,935	0.73%	22,345	2.97%
Long term loans payable - net of debt issue cost	4,782,209	4.28%	7,223,505	7.04%	(2,441,296)	-33.80%
Deposits for future stock subscription		0.00%	150,313	0.15%	(150,313)	-100.00%
Non-current accrued rent	2,421,313	2.17%	2,088,230	2.04%	333,083	15.95%
Other non-current liabilities	413,046	0.37%	445,130	0.43%	(32,084)	-7.21%
	<b>8,983,235</b>	<b>8.05%</b>	<b>11,172,567</b>	<b>10.89%</b>	<b>2,189,332</b>	<b>-19.60%</b>
<b>TOTAL LIABILITIES</b>	<b>33,171,482</b>	<b>29.72%</b>	<b>30,810,306</b>	<b>30.03%</b>	<b>2,361,176</b>	<b>7.66%</b>
<b>EQUITY</b>						
Capital stock	7,405,264	6.63%	7,405,264	7.22%		0.00%
Additional paid-in capital	9,634,644	8.63%	9,634,644	9.39%		0.00%
Remeasurement of retirement liability - net of tax	30,640	0.03%	692	0.00%	29,949	-
Reserve for fluctuations in value of AFS financial assets	5,013	0.00%	4,593	0.00%	419	9.12%
Treasury shares	(628,203)	-0.56%	(523,865)	-0.51%	(104,338)	19.92%
Retained earnings	38,147,383	34.18%	33,808,565	32.95%	4,338,818	12.83%
<b>Total Equity Attributable to Equity Holders of Parent Company</b>	<b>54,592,465</b>	<b>48.91%</b>	<b>50,329,893</b>	<b>49.06%</b>	<b>4,262,572</b>	<b>8.47%</b>
<b>Non-controlling interest</b>	<b>23,851,625</b>	<b>21.37%</b>	<b>21,458,344</b>	<b>20.91%</b>	<b>2,393,282</b>	<b>11.15%</b>
<b>TOTAL EQUITY</b>	<b>78,444,090</b>	<b>70.28%</b>	<b>71,788,237</b>	<b>69.97%</b>	<b>6,655,853</b>	<b>9.27%</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>P111,615,572</b>	<b>100.00%</b>	<b>P102,598,543</b>	<b>100.00%</b>	<b>P9,017,029</b>	<b>8.79%</b>



### **Current Assets**

**Cash and cash equivalents** amounted to P15.35 Billion as at December 31, 2017 with an increase of P2.72 Billion or 21.52% from December 31, 2016 balance. The increase was due basically to the net effect of cash generated from operations and the settlement of trade and non-trade payables principally from the Grocery Retail Segment, payment of 2016 cash dividends, settlement of loans and payments for capital expenditures during the period.

**Short-term investments** decreased by P909.93 Million from December 31, 2016 balance due mainly to the transfer to cash and cash equivalents made by the Real Estate segment.

**Receivables** increased by 16.12% from December 31, 2016 balance of P6.81 Billion to this year's balance of P7.90 Billion due mainly to the increase in sales in 2017.

**Available-for-sale financial assets** increased by 5.11% from December 31, 2016 balance of P8.20 Million to this period's balance of P8.62 Million due mainly to the effect of changes in stock prices.

**Investment in trading securities** increased by 33.55% from December 31, 2015 balance of P35.11 Million to this period's balance of P46.89 Million due mainly to the effect of changes in stock market prices.

**Inventories** increased by 7.09% from 2016 balance of P19.79 Billion to this year's balance of P21.19 Billion due to the grocery retail segment's expansion and additional stocking requirement of the new organic stores established during the year as well as the additional stocking requirements of the segment preparatory to the 4<sup>th</sup> quarter incremental sales volume. Bulk of the inventory account pertains to the merchandise inventory stocks of the grocery retail segment amounting to P17.69 Billion.

**Prepayments and other current assets** increased by P1.38 Billion at the end of December 2017, due to purchase of supplies for store and office use, input VAT on purchase of inventory and payment of various expenses, availment of new policies for insurance of new stores and advance payment of rent for soon to open stores by the Grocery Retail Segment.

**Due from related parties** decreased by P110.78 Million at the end of December 2017, due primarily to settlements made by the Real Estate segment.

### **Non-current Assets**

As at December 31, 2017 and 2016, total non-current assets amounted to P64.05 Billion or 57.36% of total assets, and P60.60 Billion or 59.07% of total assets, respectively, for an increase of P3.45 Billion or 5.64%.

**Property and equipment-net** pertains to the buildings and equipment mostly owned by the Grocery Retail segment. Book values of property and equipment increased by P2.53 Billion from P24.09 Billion in December 2016 to P26.62 Billion in December 2017 due principally to capital expenditures pertaining to new stores established by the Grocery Retail Segment and capital expenditures from Specialty Retail segment.

**Investment properties-net** pertains to the land, buildings and equipment owned by the Real Estate segment. Book values of investment properties increased by P742.80 Million or 7.42% from P10.01 Billion in December 2016 to P10.75 Billion in December 2017.

**Investments** increased by P7.13 Million from P926.67 Million in December 2016 to P933.80 Million in December 2017 resulting from the share in results of operations of joint venture and associates by the Grocery Retailing Segment, Specialty Retail Segment and Holding, Oil and Gas segment.

**Deferred tax assets** decreased by P22.76 Million or 19.53% from P116.59 Million in December 2016 to P93.82 Million in December 2017 resulting mainly from the reversal deferred tax assets.

**Other non-current assets** increased by P9.89 Million from P2.73 Billion in December 2016 to P2.74 Billion in December 2017. About 61% of these assets are attributable to the Grocery Retail Segment and the increase was primarily due to additional security deposits and advance rentals in relation to new leases acquired for new stores development as well as the accrued rental income pertaining to future periods in accordance with the lease accounting standards under PAS 17.

### **Current Liabilities**

As at December 31, 2017 and 2016, total current liabilities amounted to P24.18 Billion and P19.64 Billion respectively, for an increase of P4.55 billion or 23.17%.

About 75% of **accounts payable and accrued expenses** pertains to the trade payable to suppliers by the Grocery Retail Segment and the balance mostly to the contractors and suppliers of the Real Estate, Liquor Distribution and Specialty Retail segments. The increase by P2.01 Billion or 17.11% was primarily due to increase in trade and non-trade liabilities and dividends payable by the Grocery Retail and Parent Company as at December 31, 2017.

Significant portion of the **income tax payable** pertains to that of the Grocery Retail segment. The decrease by P69.67 Million from P1.10 Billion as at December 2016 to P1.03 Billion as at December 2017 is mainly due to savings by the Liquor Distribution and Real Estate segments during the year 2017 in relation to the same period in 2016.

**Short-term loans payable** account decreased by P200 Million mainly due to net effect of additional loans availed during 2017 principally by the Specialty Retail and and Liquor Distribution segments to augment working capital requirements and repayment by the Grocery Retail segment.

**Current portion of long term borrowing** increased by P2.28 Billion due to reclassification made by the Grocery Retail Segment long term loans payable.

**Due to related parties** increased by P159.44 Million mainly due to the additional advances made by the Real Estate segment during 2017.

**Other current liabilities** decreased by 6.84% from P542.54 Million as at December 31, 2016 to P505.41 Million as at December 31, 2017.

### **Noncurrent Liabilities**

As at December 31, 2017 and 2016, total non-current liabilities amounted to P8.98 Billion and P11.17 Billion, respectively, for a decrease of P2.18 Billion or 19.60%.

**Retirement benefit cost** increased by P78.93 Million or 15.37% mainly due to the additional retirement benefits recognized by Grocery Retail, Real Estate, Liquor Distribution and Specialty Retail segments.

The movement of **Long term loans payable - net of debt issue cost** amounting to P2.44 Billion pertains to the reclassification of long term loans to short term loans by the Grocery Retail segment.

**Noncurrent accrued rent** increased by P333.08 million or 15.95% from P2.09 Billion in December 2016 to P2.42 Billion in December 2017 due to recognition of rent expense for lease contracts entered into by the Grocery Retail segment in compliance with PAS 17 – Leases.

## Sources and Uses of Cash

A brief summary of cash flow movements is shown below:

	<u>For the years ended December 31</u>	
	<b>2017</b>	2016
Net cash flows from (used in) operating activities	<b>P8,727,706</b>	P6,077,795
Net cash flows from (used in) investing activities	<b>(4,503,325)</b>	(5,539,307)
Net cash flows from financing activities	<b>(1,505,747)</b>	(2,445,489)
Net increase in cash and cash equivalents	<b>P2,718,634</b>	(1,907,001)

Net cash generated from operating activities during the current year is basically attributable to the cash generated from operations and effect of the net settlement of trade payable accounts by the Grocery Retail and Liquor Distribution Segment during the year, purchase of inventories for new stores stocking requirements and other related current operating items to support the segment's expansion.

On the other hand, net cash used in investing activities mainly pertains to the funds used for additional capital expenditures by the Grocery Retail segment's new stores expansion and additional assets acquisition and capital expenditures and short term investments by the Real Estate segment and Specialty Retail segment.

Net cash used in financing activities principally resulted from the net settlements of bank loans by the Grocery Retail, Specialty Retail segments and Parent Company during the year, payment of 2016 cash dividends declared and shares buyback program by the Grocery Retail segment and Parent Company.

Management believes that the current levels of internally generated funds from its operating activities and its present cash position enables the Group to meet its immediate future liquidity requirements under its current work program commitments as well as other strategic investment opportunities. With its strong current financial position, this can be augmented through availments from existing untapped banking and credit facilities as and when required.

## Comparative Years 2016 and 2015

The table below shows the consolidated results of operations of the Group for the years ended December 31, 2016 and 2015.

<i>(In Millions)</i>	2016	%	2015	%	<b>INCREASE (DECREASE)</b>	%
<b>REVENUES</b>	<b>129,186</b>	<b>100.00%</b>	116,752	100.00%	<b>12,434</b>	<b>10.65%</b>
<b>COST OF SALES/SERVICES</b>	<b>107,274</b>	<b>83.04%</b>	96,788	82.90%	<b>10,485</b>	<b>10.83%</b>
<b>GROSS PROFIT</b>	<b>21,912</b>	<b>16.96%</b>	19,964	17.10%	<b>1,949</b>	<b>9.76%</b>
<b>OTHER OPERATING INCOME</b>	<b>3,280</b>	<b>2.54%</b>	2,925	2.51%	<b>355</b>	<b>12.13%</b>
<b>GROSS OPERATING INCOME</b>	<b>25,192</b>	<b>19.50%</b>	22,888	19.60%	<b>2,303</b>	<b>10.06%</b>
<b>OPERATING EXPENSES</b>	<b>14,467</b>	<b>11.20%</b>	12,876	11.03%	<b>1,592</b>	<b>12.36%</b>
<b>INCOME FROM OPERATIONS</b>	<b>10,724</b>	<b>8.30%</b>	10,013	8.58%	<b>712</b>	<b>7.11%</b>
<b>OTHER INCOME (CHARGES) - net</b>	<b>-167</b>	<b>-0.13%</b>	-208	-0.18%	<b>42</b>	<b>-19.93%</b>
<b>INCOME BEFORE INCOME TAX</b>	<b>10,557</b>	<b>8.17%</b>	9,804	8.40%	<b>753</b>	<b>7.68%</b>
<b>INCOME TAX EXPENSE</b>	<b>3,088</b>	<b>2.39%</b>	2,817	2.41%	<b>271</b>	<b>9.62%</b>
<b>NET INCOME FOR THE YEAR</b>	<b>7,469</b>	<b>5.78%</b>	6,987	5.98%	<b>482</b>	<b>6.90%</b>
<b>Net Income Attributable to:</b>						
Equity holders of the Parent Company	<b>4,734</b>	<b>3.66%</b>	4,491	3.85%	<b>243</b>	<b>5.42%</b>
Non-controlling interests	<b>2,735</b>	<b>2.12%</b>	2,497	2.14%	<b>239</b>	<b>9.56%</b>
	<b>7,469</b>	<b>5.78%</b>	6,987	5.98%	<b>482</b>	<b>6.90%</b>
<i>Basic earnings per share</i>	<b>0.663347</b>		0.628180			<b>5.60%</b>

### **Growth in Revenues**

Cosco Capital, Inc. and subsidiaries (the "Group") posted a consolidated revenue of P129.18 Billion for the year ended December 31, 2016 which reflects an increase by P12.43 Billion or representing a growth of 10.65% compared to last year's revenue of P116.75 Billion.

The growth in consolidated revenues has been largely driven by a combination of the Group's sustained organic growth from its grocery retail segment's aggressive stores expansion program, acquisitions of additional commercial real estate assets by its real estate segment augmented by improved capacity utilization of the oil storage business unit, sustained growth in revenue contributions from the liquor and wine distribution business segment in spite of the reduced revenue contribution from one of its major brandy brands recently acquired by a competitor. Revenue contributions from its LPG business unit, however, experienced a decline by 24.70% in 2016 principally due to the direct effect of the continuing depressed global prices of petroleum products.

### **Growth in Net Income**

During the same period, the Group realized a consolidated net income of P7.47 Billion which is higher by P482 Million representing a 6.90% increase as compared to last year's consolidated net income of P6.99 Billion. Net income attributable to equity holders of the parent company (PATMI) amounted to P4.73 Billion in 2016 which increased by about P243 Million or 5.42% as compared to the 2015 PATMI amounting to P4.49 Billion.

### **Segment Revenue & Net Income Contributions**

#### **Grocery Retail Segment**

During 2016, the Group's grocery retail business segment registered a consolidated revenue contribution amounting to P112.59 Billion or an increase of P15.42 Billion or 15.90% growth as compared to the segment's revenue contribution of P97.17 Billion in 2015 brought about by its continued aggressive stores expansion program both organic and strategic acquisitions.

Consolidated net income contribution in 2016 amounted to P5.52 Billion which increased by P524 Million or 10.48% as compared to the net income contribution of P5.00 Billion in 2015.

#### **Real Estate Segment**

The commercial real estate business segment contributed P1.79 Billion to the Group's consolidated revenue in 2016 representing a decrease of about P54.75 Million or 2.96% as compared to last year amounting to P1.85 Billion. This was mainly attributable to the segment's reduction in revenue of its NE Pacific Mall unit resulting from its competitive marketing strategies.

Net income contribution in 2016 amounted to about P1.053 Billion which increased by about P25.30 Million or 2.46% as compared to the net income contribution of P1.028 Billion in 2015.

#### **Liquor Distribution Segment**

Similarly, the liquor distribution business segment contributed about P4.34 Billion to the Group's consolidated revenue during the same period in 2016 representing a decrease by about P229.79 Million or 5.02% lower as compared to the 2015 revenue contribution of P4.57 Billion mainly attributable to revenue reduction from its Fundador brandy category which was recently sold to a local competitor.

Net income contribution in 2015 amounted to about P748.74 Million which increased by P89.11 Million or 13.51% as compared to the net income contribution in 2015 amounting to P659.63 Million.

#### **Specialty Retail**

Office Warehouse, Inc. contributed about P1.53 Billion to the Group's consolidated revenue during the year 2016 representing an increase by about P229.44 Million or 17.62% higher as compared to the 2015 revenue contribution of P1.30 Billion mainly attributable to its continuing stores network expansion program, enhanced product offerings and aggressive sales and marketing campaign. Consolidated net income contribution in 2016 amounted to about P64.75 Million which increased by P11.22 Million or 20.96% as compared to the net income contribution in 2015 amounting to P53.52 Million.

On the other hand, Liquigaz Philippines Corporation contributed about P8.92 Billion to the Group's consolidated revenue during the same period in 2016 representing a decrease by about P2.92 Billion or 24.70% lower as compared to the 2015 revenue contribution of P11.85 Billion mainly attributable to the effects of the continuing depressed global petroleum and gas prices in 2016. Due to the decline in revenue, net income contribution in 2016 amounted to P273.18 Million, decrease by P181.53 Million or 39.92% as compared to the net income contribution in 2015 amounting to P454.72 Million.

## Segment Operating & Financial Highlights

### Grocery Retail

#### Net Sales

For the year ended December 31, 2016, the Grocery Retail segment posted a consolidated net sales of P112,589 million for an increase of P15,418 million or a growth of 15.9% compared to P97,172 million in the same period of 2015. New stores put up in 2015 were fully operating in 2016 increasing consolidated net sales in addition to robust like for like stores sales growth and revenue contributions from new organic stores/outlets put up as well as acquisitions made during the same period. Like for like consolidated sales performance indicators of the group for the year ended December 31 are as follow:

	PGOLD	S&R
Net Sales	6.2%	4.4%
Net Ticket	5.5%	2.0%
Traffic	0.6%	2.4%

#### Gross Profit

For the year ended December 31, 2016, the Grocery Retail segment realized an increase of 12.4% in consolidated gross profit from P16,489 million in 2015 to P18,538 million in 2016 of the same period, driven by strong sales growth from new and old stores and consistent and continuing suppliers' support through additional trade discounts in the form of rebates and conditional discounts granted during the period. Consolidated gross profit margin was posted at 16.5% and 17.0% for the years ended December 31, 2016 and 2015, respectively.

#### Other Operating Income

Other operating income increased by P380 million or 13.2% from P2,886 million in the year ended December 31, 2015 to P3,266 million in 2016 of the same period. This is attributable to increase in display allowance, rent income, membership income and other supplier supports driven mainly by new stores offering new spaces for product displays and booths for third party retailers and other promotions to increase customer and supplier's supports.

#### Operating Expenses

Operating expenses increased by P1,482 million or 12.1% from P12,225 million in the year ended December 31, 2015 to P13,707 million in 2016 of the same period. The increase was mainly attributable to manpower cost of the Grocery Retail segment's new organic stores, as well as rent expenses relative to new lease contracts, supplies expense and taxes, all related to full year operation of acquired stores and operation of new organic stores.



**Other Expense - net**

Other expenses net of other income amounted to P101 million and P45 million for the years ended December 31, 2016 and 2015, respectively. The increase was due to interest expenses from additional bank loans availed during the period and recognition of share in net loss of Joint Venture.

**Net Income**

For the year ended December 31, 2016, the Grocery Retail segment earned a consolidated net income of P5,526 million at 4.9% net margin and an increase of 10.5% from P5,002 million at 5.1% net margin in 2015 of the same period. This was principally driven by the continuous expansion of the Grocery Retail segment both organic as well as strategic acquisitions and investments and combined management strategies and programs to boost revenue contributions from both the base stores as well as new stores complemented by sustained operating efficiencies and strategic costs controls on operating expenses at its current level.

**Real Estate**

The Group's Real Estate Segment posted P2.325 Billion in revenues for the year ended December 31, 2016 or a slight decrease of about 4% from P2.422 Billion revenues in the previous year. The net decrease is mainly attributable to the reduced revenue from its NE Pacific Mall unit as a result from its competitive marketing strategies. The revenues realized from the six (6) community malls acquired in 2015, expanded the Group's commercial mall portfolio, and the higher capacity utilization of its oil storage tanks facility in SBMA, mainly contributed to the increase of the segment's revenues in 2015.

Capital expenditures program for the current period include the refurbishment and rehabilitation of the six (6) community malls acquired in 2015 as well as the establishment of two (2) community malls located in Marikina, Rizal and Biñan, Laguna.

Income from operations before depreciation decreased by P110.17 Million from P1.50 Billion of the year ended December 31, 2016.

Real Estate Segment's net income for the period amounted to P1.023 Billion or basically just a flat growth rate compared to last year's P1.028 Million.

**Liquor Distribution**

Revenue from the Liquor Distribution Segment increased to P5.90 Billion in 2016 or 4.0% growth from last year's P5.68 Billion on the back of a sustained 18% growth in volume of cases sold during the year. Sales mix was still principally driven by its brandy portfolio which accounts for more than 60% of sales augmented by the increase in sales of the spirits sector. Wines and specialty beverages also experienced dramatic growths in the current period and contributed to the segment's overall sales growth.

Income from operations increased to P929 Million in 2016 or 1.71% higher from last year's P914 Million.

Net income for the 2015 decreased by P78 Million or 11.87% from P660 million in 2015 to P581 Million in 2016.

## **Specialty Retail**

### *Office Warehouse*

The Group's Specialty Retail Segment was initially established with the acquisition of 100% equity interest in Office Warehouse, Inc. that was consolidated with the Group starting May 1, 2014. Office Warehouse operates a chain of specialty retail outlets engaged in selling school and office supplies, technology products, home/office furniture and equipment and related products.

As at December 31, 2016, the company had expanded its retail network to 71 stores from 47 stores at acquisition date. Net selling area also increased to 14,014 sq.m. or a growth by 26.98% in 2016 as compared to 2015.

Sales revenues increased to P1.53 Billion in 2016 or 17.9% higher as compared to the 2015 revenue contribution of P1.30 Billion mainly attributable to its continuing stores network expansion program, enhanced product offerings as well as aggressive sales and marketing campaign which also drove a strong SSSG of 9.0% in 2016.

Net income contribution in 2016 amounted to about P65 Million which increased by P11 Million or 21.0% as compared to the net income contribution in 2015 amounting to P44 Million

### *Liquigaz*

In July 2014, Cosco Capital, Inc., through a 90%-owned subsidiary, Canaria Holdings, Inc., acquired 100% equity interest in Liquigaz Philippines Corporation, a company engaged in the wholesale and distribution of LPG in the Philippines. Liquigaz operates through its Bataan terminal and depot facility which has a storage capacity of 12,500 MT of LPG supported by its hubs located in Bulacan with a capacity of 75 metric tons with 5 cylinder refilling facilities and another one located in Canlubang, Laguna with a capacity of 40 metric tons.

The company is currently embarking its storage capacity expansion project in Sariyaya, Quezon (Southern Luzon) involving the rehabilitation of an existing 5,100 MT capacity storage tanks for Phase 1 development and the construction of a jetty and additional 12,000 MT storage tanks for Phase 2 development. When completed and fully operational, this facility will serve as the platform for its geographic expansion into the Visayas and Mindanao markets.

Revenues generated in 2016 amounted to P8.93 Billion or 24.70% lower as compared to the 2015 revenues of P11.85 Billion mainly attributable to the effect of the continued depressed state of global petroleum and gas prices in 2016. Due to the decline in revenue, net income in 2016 amounted to P273 Million which decreased by P126 Million or 31.61% as compared to that of 2015 amounting to P399 Million.

## Consolidated Statements of Financial Position

Shown below are the comparative consolidated financial position of the Group:

<i>(In Millions)</i>	2016	%	2015	%	INCREASE (DECREASE)	%
<b>ASSETS</b>						
<b>Current Assets</b>						
Cash and cash equivalents	12,634	12.22%	14,541	14.90%	-1,907	-13.11%
Receivables - net	6,792	6.57%	5,648	5.79%	1,144	20.25%
Available-for-sale financial assets	8	0.01%	9	0.01%		-4.52%
Short-term investments	910	0.88%	562	0.58%	348	61.92%
Investment in trading securities	35	0.03%	34	0.04%	1	1.96%
Inventories	19,792	19.14%	16,741	17.15%	3,052	18.23%
Due from related parties	185	0.18%	156	0.16%	29	18.66%
Prepayments and other current assets	1,641	1.59%	1,808	1.85%	-167	-9.26%
	<b>41,998</b>	<b>40.61%</b>	<b>39,499</b>	<b>40.46%</b>	<b>2,498</b>	<b>6.32%</b>
<b>Noncurrent Assets</b>						
Property and equipment - net	18,663	18.05%	16,137	16.53%	2,526	15.65%
Investment properties - net	15,438	14.93%	14,843	15.21%	595	4.01%
Intangible assets	22,599	21.85%	22,558	23.11%	40	0.18%
Investments	927	0.90%	989	1.01%	-63	-6.32%
Deferred oil and mineral exploration costs	121	0.12%	121	0.12%		0.40%
Deferred tax assets - net	117	0.11%	344	0.35%	-227	-66.08%
Loans to related parties- noncurrent portion		0.00%		0.00%		100.00%
Other non-current assets	3,559	3.44%	3,125	3.20%	433	13.86%
	<b>61,423</b>	<b>59.39%</b>	<b>58,117</b>	<b>59.54%</b>	<b>3,305</b>	<b>5.69%</b>
<b>TOTAL ASSETS</b>	<b>103,420</b>	<b>100.00%</b>	<b>97,617</b>	<b>100.00%</b>	<b>5,803</b>	<b>5.95%</b>

<i>(In Millions)</i>	2016	%	2015	%	INCREASE (DECREASE)	%
<b>LIABILITIES AND EQUITY</b>						
<b>LIABILITIES</b>						
<b>Current Liabilities</b>						
Accounts payable and accrued expenses	11,776	11.39%	12,175	12.47%	-399	-3.28%
Income tax payable	1,102	1.07%	1,076	1.10%	27	2.47%
Short-term loans payable	5,363	5.19%	4,316	4.42%	1,046	24.24%
Current portion of long-term borrowing	164	0.16%	570	0.58%	-406	-71.15%
Trust receipts payable		0.00%	5	0.01%	-5	100.00%
Due to related parties	690	0.67%	457	0.47%	233	51.01%
Other current liabilities	543	0.52%	442	0.45%	101	22.78%
	<b>19,638</b>	<b>18.99%</b>	<b>19,041</b>	<b>19.51%</b>	<b>597</b>	<b>3.13%</b>
<b>Noncurrent Liabilities</b>						
Retirement benefit cost	513	0.50%	480	0.49%	34	7.01%
Deferred tax liabilities	752	0.73%	759	0.78%	-7	-0.90%
Long term loans payable - net of debt issue cost	7,224	6.98%	8,693	8.91%	-1,470	-16.91%
Deposits for future stock subscription	150	0.15%	150	0.15%	-	0.00%
Non-current accrued rent	2,910	2.81%	2,493	2.55%	417	16.73%
Other non-current liabilities	445	0.43%	457	0.47%	-11	-2.50%
	<b>11,994</b>	<b>11.60%</b>	<b>13,032</b>	<b>13.35%</b>	<b>-1,038</b>	<b>-7.96%</b>
<b>TOTAL LIABILITIES</b>	<b>31,632</b>	<b>30.59%</b>	<b>32,073</b>	<b>32.86%</b>	<b>-441</b>	<b>-1.37%</b>
<b>EQUITY</b>						
Capital stock	7,405	7.16%	7,405	7.59%	-	0.00%
Additional paid-in capital	9,635	9.32%	9,635	9.87%	-	0.00%
Remeasurement of retirement liability - net of tax	1	0.00%	-29	-0.03%	29	102.42%
Reserve for fluctuations in value of AFS financial assets	5	0.00%	5	0.01%		-7.79%
Treasury shares	-524	-0.51%	-441	-0.45%	-83	18.92%
Retained earnings	33,809	32.69%	29,869	30.60%	3,940	13.19%
<b>Total Equity Attributable to Equity Holders of Parent Company</b>	<b>50,330</b>	<b>48.67%</b>	<b>46,444</b>	<b>47.58%</b>	<b>3,885</b>	<b>8.37%</b>
<b>Non-controlling interest</b>	<b>21,458</b>	<b>20.75%</b>	<b>19,100</b>	<b>19.57%</b>	<b>2,359</b>	<b>12.35%</b>
<b>TOTAL EQUITY</b>	<b>71,788</b>	<b>69.41%</b>	<b>65,544</b>	<b>67.14%</b>	<b>6,244</b>	<b>9.53%</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>103,420</b>	<b>100.00%</b>	<b>97,617</b>	<b>100.00%</b>	<b>5,803</b>	<b>5.95%</b>

### **Current Assets**

**Cash and cash equivalents** amounted to P12.63 Billion as at December 31, 2016 with a decrease of P1.91 Billion or 13.11% from December 31, 2015 balance. The decrease was due basically to the net effect of the settlement of trade and non-trade payables principally from the Grocery Retail Segment, payment of 2015 cash dividends, settlement of loans and payments for capital expenditures during the period.

**Short-term investments** increased by 61.90% from December 31, 2015 balance of P561 Million to this year's balance of P910 Million due mainly to the additional short term placements made by the Real Estate segment.

**Receivables** increased by 20.49% from December 31, 2015 balance of P5.65 Billion to this year's balance of P6.80 Billion due mainly to the increase in sales in 2016.

**Available-for-sale financial assets** decreased by 4.52% from December 31, 2015 balance of P9 Million to this period's balance of P8 Million due mainly to the effect of changes in stock prices.

**Investment in trading securities** increased by 1.96% from December 31, 2015 balance of P34 Million to this period's balance of P35 Million due mainly to the effect of changes in stock market prices.

**Inventories** increased by 18.23% from 2015 balance of P16.74 Billion to this year's balance of P19.79 Billion due to the grocery retail segment's expansion and additional stocking requirement of the new organic stores during the year as well as the additional stocking requirements of the specialty segment preparatory to the 4<sup>th</sup> quarter incremental sales volume. Bulk of the inventory account pertains to the merchandise inventory stocks of the grocery retail segment amounting to P16.48 Billion.

**Prepayments and other current assets** decreased by P181 Million or 10.03% at the end of December 2016, due to application of input VAT, against output VAT, on purchase of inventory and payment of various expenses. This was slightly offset by the increase in prepaid expenses from availment of new policies for insurance of new stores and advance payment of rent for soon to open stores by the Grocery Retail Segment.

**Due from related parties** increased by P29 Million at the end of December 2016, due primarily to additional advances made by the Real Estate segment.

### **Non-current Assets**

As at December 31, 2016 and 2015, total non-current assets amounted to P61.42 Billion or 59.39% of total assets, and P58.12 Billion or 59.54% of total assets, respectively, for an increase of P3.30 Billion or 5.69%.

**Property and equipment-net** pertains to the buildings and equipment mostly owned by the Grocery Retail segment. Book values of property and equipment increased by P2.52 Billion from P16.14 Billion in December 2015 to P18.66 Billion in December 2016 due principally to capital expenditures pertaining to new stores established by the Grocery Retail Segment and capital expenditures from Specialty Retail and Real Estate segments.

**Investment properties-net** pertains to the land, buildings and equipment owned by the Real Estate segment. Book values of investment properties increased by P595 Million or 4.01% from P14.84 Billion in December 2015 to P15.44 Billion in December 2016.

**Investments** decreased by P63 Million or 6.32% from P989 Million in December 2015 to P927 Million in December 2016 resulting from the share in results of operations of joint venture and associates by the Grocery Retailing Segment, Specialty Retail Segment and Holding, Oil and Gas segment.

**Deferred tax assets** decreased by P227 Million or 66.08% from P344 Million in December 2015 to P117 Million in December 2016 resulting mainly from the reversal deferred tax assets.

**Other non-current assets** increased by P433 Million from P3.12 Billion in December 2015 to P3.56 Billion in December 2016. About 42% of these assets are attributable to the Grocery Retail Segment and the increase was primarily due to additional security deposits and advance rentals in relation to new leases acquired for new stores development as well as the accrued rental income pertaining to future periods in accordance with the lease accounting standards under PAS 17.

### **Current Liabilities**

As at December 31, 2016 and 2015, total current liabilities amounted to P19.64 Billion and P19.0 Billion respectively, for an increase of P597 Million or 3.13%.

About 74% of **accounts payable and accrued expenses** pertains to the trade payable to suppliers by the Grocery Retail Segment and the balance mostly to the contractors and suppliers of the Real Estate, Liquor Distribution and Specialty Retail segments. The decrease by P399 Million or 3.28% was primarily due to net settlement of trade and non-trade liabilities and payment of dividends by the Grocery Retail, Real Estate, Specialty and Parent Company in 2016.

Significant portion of the **income tax payable** pertains to that of the Grocery Retail segment. The increase by P27 Million from P1.07 Million as at December 2015 to P1.10 Billion as at December 2016 is mainly due to additional income taxes incurred relative to the increase in net taxable income during the year 2016 in relation to the same period in 2015.

**Short-term loans payable** account increased by P1.05 Billion mainly due to additional loans availed during 2016 principally by the Grocery Retail, Real Estate and Liquor Distribution segments to augment working capital requirements, offset by the payments made.

**Current portion of long term borrowing** decreased by P406 Million due to settlement made by the Grocery Retail Segment.

**Due to related parties** increased by P233 Million mainly due to the additional advances made by the Real Estate segment during 2016.

**Other current liabilities** Increased by 22.78% from P442 Million as at December 31, 2016 to P543 Million as at December 31, 2016 relatively due to redemption of PERKS points earned by members and recognition of other income from promotions for the period by the Grocery Retail Segment and additional deposits recognized by Real Estate segment.

### **Noncurrent Liabilities**

As at December 31, 2016 and 2015, total non-current liabilities amounted to P11.99 Billion and P13.04 Billion, respectively, for a decrease of P1.03 Billion or 7.96%.

**Retirement benefit cost** increased by P34 Million or 7.01% mainly due to the additional retirement benefits recognized by Grocery Retail, Real Estate, Liquor Distribution and Specialty Retail segments.

The movement of **Long term loans payable - net of debt issue cost** amounting to P1.47 Billion pertains to the settlement of loan made by Real Estate segment.

**Noncurrent accrued rent** increased by P417 million or 16.73% from P2.49 Billion in December 2015 to P2.91 Billion in December 2016 due to recognition of rent expense for lease contracts entered into by the Grocery Retail segment in compliance with PAS 17 – Leases.



## Sources and Uses of Cash

A brief summary of cash flow movements is shown below:

	<u>For the years ended December 31</u>	
	<b>2016</b>	2015
Net cash flows from (used in) operating activities	<b>P6,077,794,908</b>	5,493,212,316
Net cash flows from (used in) investing activities	<b>(5,539,306,996)</b>	(6,872,357,680)
Net cash flows from financing activities	<b>(2,445,489,307)</b>	239,599,896
Net increase in cash and cash equivalents	<b>(P1,907,001,395)</b>	(P1,139,545,468)

Net cash generated from operating activities during the current year is basically attributable to the cash generated from operations and effect of the net settlement of trade payable accounts by the Grocery Retail and Liquor Distribution Segment during the year to avail early payment discounts, purchase of inventories for new stores stocking requirements and other related current operating items to support the segment's expansion.

On the other hand, net cash used in investing activities mainly pertains to the funds used for additional capital expenditures by the Grocery Retail segment's new stores expansion and additional capital expenditures and short term investments by the Real Estate segment and Specialty Retail segment.

Net cash used in financing activities principally resulted from the net settlements of bank loans by the Grocery Retail, Real Estate and Liquor Distribution segments during the year, payment of 2015 cash dividends declared and shares buyback program by the Grocery Retail segment and Parent Company.

Management believes that the current levels of internally generated funds and its present cash position enables the Group to meet its immediate future liquidity requirements under its current work program commitments as well as other strategic investment opportunities. This can be augmented through availment from existing untapped banking and credit facilities as and when required.

## Comparative Years 2015 and 2014

The table below shows the consolidated results of operations of the Group for the years ended December 31, 2015 and 2014.

<i>(In Millions)</i>	2015	%	2014	%	<b>INCREASE (DECREASE)</b>	%
<b>REVENUES</b>	<b>116,752</b>	<b>100%</b>	98,787	100%	<b>17,965</b>	<b>18%</b>
<b>COST OF SALES/SERVICES</b>	<b>96,788</b>	<b>83%</b>	81,499	83%	<b>15,289</b>	<b>19%</b>
<b>GROSS PROFIT</b>	<b>19,964</b>	<b>17%</b>	17,287	17%	<b>2,676</b>	<b>15%</b>
<b>OTHER OPERATING INCOME</b>	<b>2,925</b>	<b>3%</b>	2,563	3%	<b>362</b>	<b>14%</b>
<b>GROSS OPERATING INCOME</b>	<b>22,888</b>	<b>20%</b>	19,850	20%	<b>3,038</b>	<b>15%</b>
<b>OPERATING EXPENSES</b>	<b>12,876</b>	<b>11%</b>	11,130	11%	<b>1,745</b>	<b>16%</b>
<b>INCOME FROM OPERATIONS</b>	<b>10,013</b>	<b>9%</b>	8,720	9%	<b>1,293</b>	<b>15%</b>
<b>OTHER INCOME (CHARGES) - net</b>	<b>-208</b>	<b>0%</b>	-31	0%	<b>-178</b>	<b>579%</b>
<b>INCOME BEFORE INCOME TAX</b>	<b>9,804</b>	<b>8%</b>	8,689	9%	<b>1,115</b>	<b>13%</b>
<b>INCOME TAX EXPENSE</b>	<b>2,817</b>	<b>2%</b>	2,454	2%	<b>364</b>	<b>15%</b>
<b>NET INCOME FOR THE YEAR</b>	<b>6,987</b>	<b>6%</b>	6,236	6%	<b>752</b>	<b>12%</b>
<b>Net Income Attributable to:</b>						
Equity holders of the Parent Company	4,491	4%	4,027	4%	464	12%
Non-controlling interests	2,497	2%	2,209	2%	288	13%
	<b>6,987</b>	<b>6%</b>	6,236	6%	<b>752</b>	<b>12%</b>

## Comparison of Results of Operations between 2015 and 2014

### ***Growth in Revenues***

Cosco Capital, Inc. and subsidiaries (the “Group”) posted a consolidated revenue of P116.75 Billion for the year ended December 31, 2015 which reflects an increase by P17.96 Billion or representing a growth of 18% compared to last year’s revenue of P98.79 Billion. The growth in consolidated revenues has been largely driven by a combination of the Group’s sustained organic growth from its aggressive stores expansion program for its grocery retail, real estate and liquor distribution business segments as well as revenue contributions realized from the strategic acquisitions made during the period involving its commercial real estate portfolio as well as investments in specialty retailing business segment with the acquisition of Office Warehouse in February 2014 as well as Liquigaz Philippines in July 2014. During the year 2015, Liquigaz’ sustained a reduction in its revenues by 37% from its 2014 level due to the effect of downward spiral of the global prices of petroleum and LPG.

### ***Growth in Net Income***

During the same period, the Group realized a consolidated net income of P6.99 Billion which is higher by P752 Million representing a 12% increase as compared to last year’s net income of P6.23 Billion. Net income attributable to equity holders of the parent company (PATMI) amounted to P4.491 Billion in 2015 which increased by about P464 Million or 12% as compared to the 2014 PATMI amounting to P4.027 Billion.

### ***Segment Revenue & Net Income Contributions***

#### *Grocery Retail Segment*

During 2015, the Group’s grocery retail business segment registered a consolidated revenue contribution amounting to P97.17 Billion or an increase of P12.47 Billion or 15% growth as compared to the segment’s revenue contribution of P84.70 Billion in 2014 brought about by its continued aggressive stores expansion program both organic and strategic acquisitions. Consolidated net income contribution in 2015 amounted to P5.00 Billion which increased by P481 Million or 11% as compared to the net income contribution of P4.52 Billion in 2014.

#### *Real Estate Segment*

The commercial real estate business segment contributed P1.85 Billion to the Group’s consolidated revenue in 2015 representing a growth of about P452 Million or 32% as compared to last year amounting to P1.39 Billion. This was mainly attributable to the segment’s expanded commercial mall operations with the operations of its Fairview Terraces mall as well as the acquisition of NE Pacific Mall on February 11, 2014 and additional acquisitions made during the year involving six (6) community mall properties with a GLA of 35,649 sq.m. added to its assets portfolio. Net income contribution in 2015 amounted to about P1.028 Billion which increased by about P68.74 Million or 7% as compared to the net income contribution of P959 Million in 2014.

### Liquor Distribution Segment

Similarly, the liquor distribution business segment contributed about P4.57 Billion to the Group's consolidated revenue during the same period in 2015 representing an increase by about P857 Billion or 23% higher as compared to the 2014 revenue contribution of P3.72 Billion mainly attributable to its aggressive sales and marketing campaign. Net income contribution in 2015 amounted to about P659 Million which increased by P56 Million or 9% as compared to the net income contribution in 2014 amounting to P603 Million.

### Specialty Retail

Office Warehouse, Inc., which was acquired in April 2014, contributed the amount of P1.30 Billion to the Group's consolidated revenue and P54 Million to the Group's consolidated net income during the year 2015.

On the other hand, Liquigaz Philippines Corporation, which was acquired on July 21, 2014, contributed the amount of P11.85 Billion to the Group's consolidated revenues and P455 Million to the Group's consolidated net income during 2015. It's 2015 revenues, however, decreased by 37% from its 2014 level due to the effects of the downward spiral of the global oil and gas prices sustained during the year.

## **Segment Operating Highlights**

### Grocery Retail

#### **Net Sales**

For the year ended December 31, 2015, the Grocery Retail segment posted a consolidated net sales of P97,172 million for an increase of P12,474 million or a growth of 14.7% compared to P84,697 million in the same period of 2014. New stores put up in 2014 were fully operating in 2015 increasing consolidated net sales in addition to robust like for like stores sales growth and revenue contributions from new organic stores/outlets put up as well as acquisitions made during the same period. Like for like consolidated sales performance indicators of the group for the year ended December 31 are as follow:

	<b>2015</b>	2014
Net Sales	<b>2.9%</b>	3.5%
Net Ticket	<b>4.6%</b>	5.4%
Traffic	<b>-1.7%</b>	-1.8%

#### **Gross Profit**

For the year ended December 31, 2015, the Grocery Retail segment realized an increase of 11.7% in consolidated gross profit from P14,760 million in 2014 to P16,489 million in 2015 of the same period, driven by strong sales growth from new and old stores and consistent and continuing suppliers' support through additional trade discounts in the form of rebates and conditional discounts granted during the period. Consolidated gross profit margin was posted at 17.0% and 17.4% while gross income stood at 19.9% and 20.5% for the years ended December 31, 2015 and 2014, respectively.

### **Other Operating Income**

Other operating income increased by P323 million or 12.6% from P2,563 million in the year ended December 31, 2014 to P2,886 million in 2015 of the same period. This is attributable to increase in display allowance, rent income, membership income and service income driven mainly by new stores offering new spaces for product displays and booths for third party retailers and other promotions to increase customer and supplier's supports.

### **Operating Expenses**

Operating expenses increased by P1,380 million or 12.7% from P10,845 million in the year ended December 31, 2014 to P12,225 million in 2015 of the same period. The increase was mainly attributable to manpower cost of the Grocery Retail segment's new organic stores, as well as rent expenses relative to new lease contracts, supplies expense and taxes, all related to acquisitions and operation of new organic stores.

### **Other Expense - net**

Other expenses net of other income amounted to P45 million and P20 million for the years ended December 31, 2015 and 2014, respectively. The increase was due to interest expenses from additional loans availed during the period.

### **Net Income**

For the year ended December 31, 2015, the Grocery Retail segment earned a consolidated net income of P5,002 million at 5.1% net margin and an increase of 10.6% from P4,520 million at 5.3% net margin in 2014 of the same period. This was principally driven by the continuous expansion of the Grocery Retail segment both organic as well as strategic acquisitions and investments and combined management strategies and programs to boost revenue contributions from both the base stores as well as new stores (both organic and strategic acquisitions) complemented by operating efficiencies and strategic costs controls on operating expenses at its current level.

### **Real Estate**

The Group's Real Estate Segment posted P2.42 Billion in revenues for the year ended December 31, 2015 or a 10% increase from P2.21 Billion in the previous year. The acquisition of NE Pacific Shopping Centers Corporation, the operation of Fairview Terraces Mall as well as the acquisition of six (6) community malls in 2015, expanded the Group's commercial mall portfolio and mainly contributed to the increase of the segment's revenue.

Income from operations before depreciation increased by P134 Million from P1.37 Billion of the year ended December 31, 2015.

Real Estate Segment's net income for the period amounted to P1.028 Billion or a 5% increase from last year's P975 Million brought about by growth in revenue.

### **Liquor Distribution**

Revenue from the Liquor Distribution Segment increased to P5.68 Billion in 2015 or 17% growth from last year's P4.84 Billion. The growth in revenue is attributable to the increase in sales of the spirits sector particularly brandy and whisky. Wines and specialty beverages also experienced dramatic growths in the current year and contributed to the segment's overall sales growth.

Income from operations increased to P919 Million in 2015 or 10% higher from last year's P838 Million.

Net income for the 2015 increased by P57 Million from P603 million in 2014 to P660 Million in 2015 or a 9% growth.

### **Specialty Retail**

The Group's Specialty Retail Segment was initially established with the acquisition of 100% equity interest in Office Warehouse, Inc. that was consolidated with the Group starting May 1, 2014. Office Warehouse operates a chain of 59 specialty retail outlets during the current year engaged in selling school and office supplies, technology items, home/office furniture and equipment and related products

For the year ended December 31, 2015, Office Warehouse contributed the amount of P1.30 Billion to the Group's consolidated revenue and P54 Million to the Group's consolidated net income.

In July 2014, Cosco Capital, Inc., through a 90%-owned subsidiary, Canaria Holdings, Inc., acquired 100% equity interest in Liquigaz Philippines Corporation, a company engaged in the wholesale and distribution of LPG in the Philippines. Liquigaz operates through its Bataan terminal which has a storage capacity of 12,500 MT of LPG supported by its distribution hubs located in Bulacan with a capacity of 75 metric tons with 5 cylinder refilling facilities and another one located in Canlubang, Laguna with a capacity of 40 metric tons.

For the year ended December 31, 2015, Liquigaz contributed the amount of P11.85 Billion to the Group's consolidated revenues and P455 Million to the Group's consolidated net income. Its 2015 twelve-month year on year net income grew by 18%, as compared to its 2014 operating results.



## Consolidated Statements of Financial Position

Shown below are the comparative consolidated financial position of the Group:

<i>(In Millions)</i>	2015	%	2014	%	INCREASE (DECREASE)	%
<b>ASSETS</b>						
<b>Current Assets</b>						
Cash and cash equivalents	14,541	15%	15,681	17%	-1,140	-7%
Receivables - net	5,648	6%	5,322	6%	326	6%
Available-for-sale financial assets	9	0%	14	0%	-6	-40%
Short-term investments	562	1%	824	1%	-262	-32%
Investment in trading securities	34	0%	37	0%	-3	-8%
Inventories	16,741	17%	13,922	16%	2,819	20%
Due from related parties	156	0%	10	0%	146	1453%
Prepayments and other current assets	1,808	2%	1,165	1%	643	55%
	<b>39,499</b>	<b>40%</b>	<b>36,975</b>	<b>41%</b>	<b>2,524</b>	<b>7%</b>
<b>Noncurrent Assets</b>						
Property and equipment - net	16,137	17%	15,285	17%	852	6%
Investment properties - net	14,843	15%	12,774	14%	2,069	16%
Intangible assets	22,558	23%	20,895	23%	1,663	8%
Investments	989	1%	912	1%	77	8%
Deferred oil and mineral exploration costs	121	0%	119	0%	2	1%
Deferred tax assets - net	344	0%	120	0%	223	186%
Loans to related parties- noncurrent portion		0%	8	0%	-8	-97%
Other non-current assets	3,125	3%	2,609	3%	516	20%
	<b>58,117</b>	<b>60%</b>	<b>52,723</b>	<b>59%</b>	<b>5,394</b>	<b>10%</b>
<b>TOTAL ASSETS</b>	<b>97,617</b>	<b>100%</b>	<b>89,699</b>	<b>100%</b>	<b>7,918</b>	<b>9%</b>

<i>(In Millions)</i>	2015	%	2014	%	INCREASE (DECREASE)	%
<b>LIABILITIES AND EQUITY</b>						
<b>LIABILITIES</b>						
<b>Current Liabilities</b>						
Accounts payable and accrued expenses	12,175	12%	12,715	14%	-540	-4%
Income tax payable	1,076	1%	830	1%	246	30%
Short-term loans payable	4,316	4%	2,259	3%	2,057	91%
Current portion of long-term borrowing	570	1%	1,008	1%	-438	-43%
Trust receipts payable	5	0%	-	0%	5	100%
Due to related parties	457	0%	43	0%	415	-
Other current liabilities	442	0%	409	0%	33	8%
	<b>19,041</b>	<b>20%</b>	<b>17,263</b>	<b>19%</b>	<b>1,778</b>	<b>10%</b>
<b>Noncurrent Liabilities</b>						
Retirement benefit cost	480	0%	433	0%	46	11%
Deferred tax liabilities	759	1%	754	1%	5	1%
Long term loans payable - net of debt issue cost	8,693	9%	8,859	10%	-165	-2%
Deposits for future stock subscription	150	0%	150	0%	-	-
Other non-current liabilities	2,949	3%	2,560	3%	389	15%
	<b>13,032</b>	<b>13%</b>	<b>12,757</b>	<b>14%</b>	<b>275</b>	<b>2%</b>
<b>TOTAL LIABILITIES</b>	<b>32,073</b>	<b>33%</b>	<b>30,020</b>	<b>33%</b>	<b>2,053</b>	<b>7%</b>
<b>EQUITY</b>						
Capital stock	7,405	8%	7,405	8%	-	-
Additional paid-in capital	9,635	10%	9,635	11%	-	-
Remeasurement of retirement liability - net of tax	-8	0%	-50	0%	41	-83%
Reserve for fluctuations in value of AFS financial assets	5	0%	7	0%	-2	-28%
Treasury shares	-441	0%	-253	0%	-188	74%
Retained earnings	29,869	31%	25,926	29%	3,943	15%
<b>Total Equity Attributable to Equity Holders of Parent Company</b>	<b>46,465</b>	<b>48%</b>	<b>42,670</b>	<b>48%</b>	<b>3,794</b>	<b>9%</b>
<b>Non-controlling interest</b>	<b>19,079</b>	<b>20%</b>	<b>17,008</b>	<b>19%</b>	<b>2,071</b>	<b>12%</b>
<b>TOTAL EQUITY</b>	<b>65,544</b>	<b>67%</b>	<b>59,679</b>	<b>67%</b>	<b>5,865</b>	<b>10%</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>97,617</b>	<b>100%</b>	<b>89,699</b>	<b>100%</b>	<b>7,918</b>	<b>9%</b>

### **Current Assets**

**Cash and cash equivalents** amounted to P14.54 Billion as at December 31, 2015 with a decrease of P1.14 Billion from December 31, 2014 balance or an 7% decrease due basically to the net effect of the Real estate segment's acquisitions of additional six (6) community mall properties during the current period, coupled by significant decrease in cash of the Retail Segment used in settling their trade and non-trade payables, payment of cash dividends, acquisition of seventeen (17) supermarket stores in 2015 and capital expenditures for 2015 new stores development including new QSRs outlets under the S&R portfolio.

**Short-term investments** decreased by 32% from December 31, 2014 balance of P824 Million to this year's balance of P562 Million due mainly to the matured placements made by the Real Estate segment.

**Receivables** increased by 6% from December 31, 2014 balance of P5.32 Billion to this year's balance of P5.65 Billion due mainly to the increase in sales in 2015.

**Available-for-sale financial assets** decreased by 40% from December 31, 2014 balance of P14 Million to this period's balance of P9 Million due mainly to the redemption of certain investments and the effect of changes in stock prices.

**Investment in trading securities** decreased by 8% from December 31, 2014 balance of P37 Million to this period's balance of P34 Million due mainly to the effect of changes in stock market prices.

**Inventories** increased by 20% from 2015 balance of P13.92 Billion to this year's balance of P16.74 Billion due to the retail segment's expansion and additional stocking requirement of the new organic and acquired stores during the year as well as the additional stocking requirements of the liquor distribution segment preparatory to the 4<sup>th</sup> quarter incremental sales volume. Bulk of the inventory account pertains to the merchandise inventory stocks of the retail segment amounting to P12.98 Billion.

**Prepayments and other current assets** increased by P643 Million or 55% at the end of December 2015, due primarily to additional input vat coming from purchase of inventory and payment of various expenses and increase in prepaid expenses from availment of new policies for insurance of new stores and advance payment of rent for soon to open stores by the Grocery Retail Segment.

**Due from related parties** increased by P146 Million at the end of December 2015, due primarily to additional advances.

### **Non-current Assets**

As at December 31, 2015 and 2014, total non-current assets amounted to P58.12 Billion or 60% of total assets, and P52.72 Billion or 59% of total assets, respectively, for an increase of P5.39 Billion or 10%.

**Property and equipment-net** pertains to the buildings and equipment mostly owned by the Grocery Retail segment. Book values of property and equipment increased by P852 Million from P15.28 Billion in December 2014 to P16.14 Billion in December 2015 due principally to capital expenditures pertaining to new stores established by the Grocery Retail Segment during the period.

**Investment properties-net** pertains to the land, buildings and equipment owned by the Real Estate segment. Book values of investment properties increased by P2.07 Billion or 16% from P12.77 Billion in December 2014 to P14.84 Billion in December 2015 due principally to additional six (6) commercial mall assets acquired during the year.

**Investments** increased by P77 Million or 8% from P912 Million in December 2014 to P989 Million in December 2015 resulting mainly from the additional investment equity investments during the year to its unconsolidated joint venture affiliate, Ayagold Retailers and offset by the effect of share in results of operations of joint venture and associates by the Grocery Retailing Segment, Specialty Retail Segment and Holding, Oil and Gas segment.

Similarly, **intangible assets** increased by P1.66 Billion or 8% in 2015 representing additional goodwill amounts paid resulting from the acquisition by the Grocery Retailing Segment of nine (9) NE supermarkets in February 2015 and eight (8) supermarket stores operating under trade name Budgetlane through Goldtempo Company, Incorporated, a wholly-owned subsidiary of Entenso Equities in August 2015.

**Deferred tax assets** increased by P223 Million or 186% from P120 Million in December 2014 to P344 Million in December 2015 resulting mainly from the additional deferred tax assets recognized by Specialty Retail and Real Estate Segments.

**Other non-current assets** increased by P516 Million from P2.61 Billion in December 2014 to P3.12 Billion in December 2015. About 45% of these assets are attributable to the Grocery Retail Segment and the increase was primarily due to additional security deposits and advance rentals in relation to new leases acquired for new stores development for the Grocery Retail segment as well as accrued rental income (PAS17) pertaining to future periods for both the Real Estate and the Grocery Retail segments.

### **Current Liabilities**

As at December 31, 2015 and 2014, total current liabilities amounted to P19.0 Billion and P17.26 Billion respectively, for an increase of P1.78 Billion or 10% .

About 73% of **accounts payable and accrued expenses** pertains to the trade payable to suppliers by the Grocery Retail Segment and the balance mostly to the contractors and suppliers of the Real Estate, Liquor Distribution and Specialty Retail segments. The decrease by P540 Million or 4% was primarily due to the additional purchases during by the Retail and Liquor Distribution segment partially offset by the net settlement of trade and non-trade liabilities.

Significant portion of the **income tax payable** pertains to that of the Grocery Retail segment. The increase by P246 Million from P830 Million as at December 2014 to P1.07 Billion as at December 2015 is mainly due to additional income taxes incurred relative to the increase in net taxable income during the year 2015 in relation to the same period in 2014.

**Short-term loans payable** account increased by P2.06 Billion mainly due to additional loans availed during 2015 principally by the Grocery Retail, Real Estate and Liquor Distribution segments to augment working capital requirements, offset by the payments made by Liquor Distribution and Specialty Retail Segments.

**Current portion of long term borrowing** decreased by P438 Million due to settlement made during the period by the Grocery Retail Segment.

**Due to related parties** increased by P415 Million mainly due to the additional advances made by the Real Estate segment during 2015.

**Other current liabilities** Increased by 8% from P409 Million as at December 31, 2014 to P442 Million as at December 31, 2015 relatively due to redemption of PERKS points earned by members and recognition of other income from promotions for the period by the Grocery Retail Segment and additional deposits recognized by Real Estate segment.

### **Noncurrent Liabilities**

As at December 31, 2015 and 2014, total non-current liabilities amounted to P13.04 Billion and P12.76 Billion, respectively, for an increase of P280 Million or 2%.

**Retirement benefit cost** increased by P46 Million or 11% mainly due to the additional retirement benefits recognized by Grocery Retail, Real Estate, Liquor Distribution and Specialty Retail segments.

The movement of **Long term loans payable - net of debt issue cost** amounting to P165 Million pertains to the settlement of loan made by Oil, holding and gas, Grocery Retail and Real Estate segments.

**Other non-current liabilities**, which is primarily composed of non-current accrued rent, increased by P394 Million or 15% from P2.56 Billion as at December 31, 2014 to P2.95 Billion as at December 31, 2015 due to recognition of rent expense for lease contracts by the Grocery Retail segment in compliance with PAS 17 – *Leases*.

### **Sources and Uses of Cash**

A brief summary of cash flow movements is shown below:

	<u>For the years ended December 31</u>	
	<b>2015</b>	2014
Net cash flows from (used in) operating activities	<b>P5,493,212,316</b>	P3,308,640,604
Net cash flows from (used in) investing activities	<b>(6,872,357,680)</b>	(9,237,204,532)
Net cash flows from financing activities	<b>239,599,896</b>	6,913,498,443
Net increase in cash and cash equivalents	<b>P(1,139,545,468)</b>	_P984,934,515

Net cash from operating activities during the current year is basically attributable to the cash generated from operations and effect of the net settlement of trade payable accounts by the Grocery Retail and Liquor Distribution Segment during the year to avail early payment discounts, purchase of inventories for new stores stocking requirements and other related current operating items to support the segment's expansion.

On the other hand, net cash flows used by investing activities mainly pertains to the funds used for strategic business acquisitions by the Grocery Retail segment and other related equity investments as well as additional capital expenditures for new stores development and acquisition by the Real Estate segment of additional commercial properties during the year.

Net cash from financing activities principally resulted from the net proceeds from the additional loans obtained by the Grocery Retail segment, Real Estate and Liquor Distributions segment during the year, and reduced by loan repayments by the Grocery Retail, Liquor Distribution, Specialty Retail segment and Parent Company as well as interest paid, dividend payments and shares buy back of shares transactions by both the Parent Company and its Grocery Retail subsidiary segment during the year.

Management believes that the current levels of internally generated operating cash flows and its present cash position enables the Group to meet its immediate future liquidity requirements under its current work program commitments as well as other strategic investment opportunities.

## Material Events and Uncertainties

Below is the discussion and analysis of material events and uncertainties known to management that would address the past and would have an impact on future operations:


- (i) Seasonal aspects that had a material effect on the financial condition or results of the Group's operations includes retail and liquor business which sales tend to peak during the gift-giving Christmas season;
- (ii) There are no changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years;
- (iii) There are no material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period;
- (iv) There are no contingent liabilities or assets since the last statement of financial position period;
- (v) Sources of liquidity – Funding will be sourced from internally generated cash flow, cash recently received from the sale of shares to the equity market and from debt market;
- (vi) There are no events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation;
- (vii) There are no material commitments for capital expenditures other than those performed in the ordinary course of trade or business;
- (viii) There are no known trends, events or uncertainties that have had or that are reasonably expected to have a material impact on the revenues or income from continuing operations;
- (ix) There are no significant elements of income not arising from continuing operations;
- (x) Due to the Group's sound financial condition, there are no foreseeable trends or events that may have material impact on its short-term or long-term liquidity.



# ANNEX "F"

List of Trademarks owned by Cosco Capital, Inc. and Subsidiaries

Aling Puring KAINDUSTRIFA		GOLD YARN	
ALWAYS PANALO	ALWAYS PANALO	GOLDEN	
AQUALIFE	AQUALIFE	GOPURE	GoPure
AQUALIZED	Aqualized	GRAND P	Grand P
ATLANTIC	ATLANTIC	GREAT SUPERMARKET	Great Supermarket
BELLOTA	BELLOTA	HER COLLECTION/HIS COLELCTION	
CLIQUE Logo		HIS KIDS/HER KIDS	
COFFEE MATCH		HOME CLEAN	HOME CLEAN
COFFEE MAX		JOOZY	
DFP	DFP	KA-ASENSO	Ka- asenso
DISTRITO	Distrito	KA-ASENSO & Device	
DRY PLUS	DRY PLUS	KITANG-KITA CASE	
EASY HOME DEPOT	EASY HOME DEPOT	KOBE CHICKEN	Kobe Chicken
EQUAL	Equal	MAGIC GLOW	
EQUAL	Equal	MARKET 999	MARKET 999
EQUIVALENT	EQUIVALENT	MINI MART BY PUREGOLD	Mini Mart by Puregold
EZEE	EZee	MOMMY MARKET	Mommy Market
FRESH & EASY		MR. PAPER	MR. PAPER
MY BABY PLANET	My Baby Planet	NE KAYA 'YAN CABAYAN!	

NEGOSYO MO CABAYAN CARD	
PANALO KARD	PANALO KARD
PEOPLE'S GROCER	People's Grocer
PEOPLE'S RICE	PEOPLE'S RICE
PERFECT MATE	PERFECT MATE
PERKS LOYALTY CARD	PERKS LOYALTY CARD
PISO GARANTISADO	Piso Garantisado
POSITIVE 99	POSITIVE ≤99
PREMIUM GOLD	<i>Premium Gold</i>
PUHUNAN PLUS	PUHUNAN PLUS
PURE BASICS	<b>PURE BASICS</b>
PURE BASICS	PURE BASICS
PURE BASICS LOGO	
PURE BASICS Pure Clean, Pure White	PURE BASICS Pure Clean, Pure White
PURE BASICS Pure Freshness, Pure Softness	PURE BASICS Pure Freshness, Pure Softness
PURE HEALTH CARE	Pure Health Care
PURE PHARMACY	PURE PHARMACY
PURE PLUS	<b>Pure Plus</b>
PURE VALUE	<i>Pure Value</i>
PURE BASICS Palaban sa Sebo, Panalo sa Presyo	PURE BASICS Palaban sa Sebo, Panalo sa Presyo

PURECART	<b>PURECART</b>
PURECASH	<b>PureCash</b>
PUREGLIDE	<b>PUREGLIDE</b>
PUREGOLD DISKWENTODO	Puregold DiskwentODO
PUREGOLD HOME OFFICE	Puregold Home Office
PUREGOLD NUTRITIONISCOOL	Puregold Nutritionist
PUREPADALA	
PUREPLEASURE	<b>PUREPLEASURE</b>
PUREPLUS	<b>Pureplus</b>
REACH Softest Touch & Device	
SA PUREGOLD, ALWAYS PANALO	SA PUREGOLD, ALWAYS PANALO
STACK & STOCK RIGHT	
TABACALERA	<b>TABACALERA</b>
Tindahan ni Aling Puring	TINDAHAN NI ALING PURING ABOT KAYA ANG ASENSO!
TINDAHAN NI ALING PURING (Super SIM and Device)	
TIPPTOES	
TWIN ELEPHANT	<b>TWIN ELEPHANT</b>
VIPuring	<b>VIPuring</b>
WRAP & SEAL	<b>Wrap &amp; Seal</b>
VINO FONTANA	<b>VINO FONTANA</b>

<b>OFFICE WAREHOUSE</b>	
International Trade Name Application	
Trade Name	Country
PUREGOLD	HONG KONG



**MONTOSCO INC.**

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR FINANCIAL STATEMENTS**

The management of **MONTOSCO, INC.** (the "**Company**") is responsible for the preparation and fair presentation of the separate financial statements, including the schedule attached therein, as at and for the years ended **December 31, 2020 and 2019**, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of the separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate 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.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the separate financial statements including the schedule attached therein, and submits the same to the stockholders.

**R.G. Manabat & Co.**, the independent auditor appointed by the stockholders, has audited the separate financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

**JANNELLE O. UY**  
President and Chairman of the Board

**MARIA CRISANTA A. RELOS**  
Treasurer

Signed this \_\_\_ day of \_\_\_\_\_ 2021



Montosco Inc &lt;montosco.bir@gmail.com&gt;

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**Your BIR AFS eSubmission uploads were received**

1 message

**eafs@bir.gov.ph** <eafs@bir.gov.ph>

Thu, Apr 22, 2021 at 4:08 PM

To: MONTOSCO.BIR@gmail.com

Cc: JANNELLE\_621@yahoo.com

Hi MONTOSCO, INC. ,

**Valid files**

- EAFS007097056TCRTY122020-03.pdf
- EAFS007097056AFSTY122020.pdf
- EAFS007097056ITRTY122020.pdf
- EAFS007097056OTHTY122020.pdf
- EAFS007097056RPTTY122020.pdf
- EAFS007097056TCRTY122020-01.pdf
- EAFS007097056TCRTY122020-02.pdf

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- <None>

Transaction Code: **AFS-0-BJGJH7AG04PW4VT4XMQRV3SMY04234M1MN**Submission Date/Time: **Apr 22, 2021 04:08 PM**Company TIN: **007-097-056**

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- The submission is without prejudice to the right of the BIR to require additional document, if any, for completion and verification purposes;
- The hard copies of the documents submitted through this facility shall be submitted when required by the BIR in the event of audit/investigation and/or for any other legal purpose.

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# COVER SHEET

## For AUDITED FINANCIAL STATEMENTS

SEC Registration Number

C	S	2	0	0	8	1	2	5	2	8
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### COMPANY NAME

M	O	N	T	O	S	C	O	,		I	N	C	.																										
(	A		W	h	o	l	i	l	y	-	o	w	n	e	d		S	u	b	s	i	d	i	a	r	y		o	f										
C	o	s	c	o		C	a	p	i	t	a	l	,		I	n	c	.	)																				

### PRINCIPAL OFFICE (No. / Street / Barangay / City / Town / Province)

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D	a	s	m	a	r	i	ñ	a	s		S	t	r	e	e	t																													
B	i	n	o	n	d	o	,		M	a	n	i	l	a																															

Form Type

A A F S

Department requiring the report

Secondary License Type, if Applicable

### COMPANY INFORMATION

Company's email Address

www.coscocapital.com

Company's Telephone Number/s

(02) 242-0635

Mobile Number

No. of Stockholders

7

Annual Meeting (Month / Day)

June 30

Fiscal Year (Month / Day)

December 31

### CONTACT PERSON INFORMATION

The designated contact person *MUST* be an Officer of the Corporation

Name of Contact Person

Camille Clarisse P. Co

Email Address

Telephone Number/s

(02) 242-0635

Mobile Number

### CONTACT PERSON'S ADDRESS

1501 Federal Tower, Dasmariñas Street, Binondo, Manila

*Note 1: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.*

*2: All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.*



# **MONTOSCO, INC.**

(A Wholly-owned Subsidiary of Cosco Capital, Inc.)

**FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

With Independent Auditors' Report



R.G. Manabat & Co.  
The KPMG Center, 9/F  
6787 Ayala Avenue, Makati City  
Philippines 1226  
Telephone +63 (2) 8885 7000  
Fax +63 (2) 8894 1985  
Internet [www.home.kpmg/ph](http://www.home.kpmg/ph)  
Email [ph-inquiry@kpmg.com](mailto:ph-inquiry@kpmg.com)

## REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders  
**Montosco, Inc.**  
1501 Federal Tower, Dasmarinas Street  
Binondo, Manila

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of Montosco, Inc. (the "Company"), a wholly-owned subsidiary of Cosco Capital, Inc., which comprise the statements of financial position as at December 31, 2020 and 2019, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended 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 *Auditors' 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 the 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.

Firm Regulatory Registration & Accreditation:  
PRC-BOA Registration No. 0003, valid until November 21, 2023  
SEC Accreditation No. 0003-SEC, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by SEC Accreditation No. 0004-FR-5)  
IC Accreditation No. 0003-IC, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by IC Circular Letter (CL) No. 2019-39, Transition clause)  
BSP Accreditation No. 0003-BSP, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by BSP Monetary Board Resolution No. 2161, Transition clause)



## *Responsibilities of Management and the Board of Directors for the Financial Statements*

Management is responsible for the preparation and fair presentation of the 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 its operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

## *Auditors' Responsibilities for the Audit of the 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 auditors' 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, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSA, we exercise professional judgment and maintain professional skepticism throughout the audits. 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 auditors' 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 auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.



- 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 the Board of Directors and management 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.

**Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010 of the Bureau of Internal Revenue**

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 23 to financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

**R.G. MANABAT & CO.**

*Gregorio I. Sambrano, Jr.*  
GREGORIO I. SAMBRANO, JR.  
Partner

CPA License No. 088825

SEC Accreditation No. 1548-AR-1, Group A, valid until December 17, 2021

Tax Identification No. 152-885-329

BIR Accreditation No. 08-001987-36-2018

Issued September 20, 2018; valid until September 19, 2021

PTR No. MKT 8533918

Issued January 4, 2021 at Makati City

April 16, 2021

Makati City, Metro Manila



R.G. Manabat & Co.  
The KPMG Center, 9/F  
6787 Ayala Avenue, Makati City  
Philippines 1226  
Telephone +63 (2) 8885 7000  
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Internet www.home.kpmg/ph  
Email ph-inquiry@kpmg.com

**REPORT OF INDEPENDENT AUDITORS  
TO ACCOMPANY FINANCIAL STATEMENTS FOR FILING  
WITH THE SECURITIES AND EXCHANGE COMMISSION**

The Board of Directors and Stockholders  
**Montosco, Inc.**  
1501 Federal Tower, Dasmaríñas Street  
Binondo, Manila

We have audited the accompanying financial statements of Montosco, Inc. (the "Company"), a wholly-owned subsidiary of Cosco Capital, Inc., as at and for the year ended December 31, 2020, on which we have rendered our report dated April 16, 2021.

In compliance with Revised Securities Regulation Code Rule 68, we are stating that the said Company has only one (1) stockholder owning one hundred (100) or more shares.

**R.G. MANABAT & CO.**

  
GREGORIO I. SAMBRANO, JR.

Partner

CPA License No. 088825

SEC Accreditation No. 1548-AR-1, Group A, valid until December 17, 2021

Tax Identification No. 152-885-329

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April 16, 2021  
Makati City, Metro Manila

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financial statements (2019 financial statements are covered by SEC Accreditation No. 0004-FR-5)  
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financial statements (2019 financial statements are covered by IC Circular Letter (CL) No. 2019-39, Transition clause)  
BSP Accreditation No. 0003-BSP, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by BSP Monetary Board Resolution No. 2161, Transition clause)

**MONTOSCO, INC.**  
**(A Wholly-owned Subsidiary of Cosco Capital, Inc.)**  
**STATEMENTS OF FINANCIAL POSITION**

		December 31	
	Note	2020	2019
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	5, 19	P2,177,068,896	P167,845,035
Trade and other receivables	6, 19	1,016,343,384	1,444,904,280
Inventories	7, 15	1,931,696,218	3,427,765,849
Prepaid expenses and other current assets	8	541,689,045	445,282,867
<b>Total Current Assets</b>		<b>5,666,797,543</b>	<b>5,485,798,031</b>
<b>Noncurrent Assets</b>			
Right-of-use assets - net	16	100,134,626	26,735,588
Property and equipment - net	9	19,064,706	9,412,433
Refundable deposits	10, 16, 19	9,807,749	4,127,879
<b>Total Noncurrent Assets</b>		<b>129,007,081</b>	<b>40,275,900</b>
		<b>P5,795,804,624</b>	<b>P5,526,073,931</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Trade and other payables	11, 19	P1,063,297,466	P1,124,965,435
Dividends payable	13, 14, 19	200,000,000	50,000,000
Income tax payable		152,685,581	139,332,117
Lease liabilities - current	16, 19	23,520,963	14,431,292
Notes payable	12, 19	-	120,000,000
<b>Total Current Liabilities</b>		<b>1,439,504,010</b>	<b>1,448,728,844</b>
<b>Noncurrent Liabilities</b>			
Lease liabilities - net of current portion	16, 19	80,723,765	13,128,665
Retirement benefits liability	17	3,071,511	2,340,592
Advances from a stockholder	13, 19	-	659,500,000
<b>Total Noncurrent Liabilities</b>		<b>83,795,276</b>	<b>674,969,257</b>
<b>Total Liabilities</b>		<b>1,523,299,286</b>	<b>2,123,698,101</b>
<b>Equity</b>			
Capital stock	14	750,000,000	750,000,000
Retained earnings			
Unappropriated	14	2,573,203,883	1,702,740,656
Appropriated	14	950,000,000	950,000,000
Accumulated remeasurements on retirement benefits	17	(698,545)	(364,826)
<b>Total Equity</b>		<b>4,272,505,338</b>	<b>3,402,375,830</b>
		<b>P5,795,804,624</b>	<b>P5,526,073,931</b>

*See Notes to Financial Statements.*



**MONTOSCO, INC.**  
**(A Wholly-owned Subsidiary of Cosco Capital, Inc.)**  
**STATEMENTS OF COMPREHENSIVE INCOME**

		Years Ended December 31	
	Note	2020	2019
<b>NET SALES</b>	13	<b>P6,106,846,192</b>	P8,155,525,111
<b>COST OF GOODS SOLD</b>	15	<b>4,263,929,855</b>	6,130,312,640
<b>GROSS PROFIT</b>		<b>1,842,916,337</b>	2,025,212,471
<b>OPERATING EXPENSES</b>			
Distribution costs		<b>170,883,722</b>	150,239,260
Advertisement		<b>128,657,923</b>	219,525,677
Depreciation and amortization	9, 16	<b>42,101,134</b>	16,351,559
Salaries and other employee benefits	17	<b>30,003,239</b>	25,131,216
Outside services		<b>20,800,386</b>	50,539,982
Taxes and licenses		<b>14,630,784</b>	44,623,004
Insurance		<b>7,735,883</b>	5,647,927
Utilities and communication		<b>4,088,602</b>	7,930,241
Transportation and travel		<b>3,067,099</b>	6,481,385
Representation and entertainment		<b>569,505</b>	2,107,411
Miscellaneous		<b>8,787,113</b>	16,925,324
		<b>431,325,390</b>	545,502,986
<b>INCOME FROM OPERATIONS</b>		<b>1,411,590,947</b>	1,479,709,485
<b>OTHER INCOME (CHARGES) - Net</b>			
Interest income	5	<b>19,644,118</b>	3,195,077
Foreign exchange gain (loss) - net		<b>(16,897,942)</b>	31,816,959
Interest expense	12, 13, 16	<b>(12,148,955)</b>	(34,723,895)
		<b>(9,402,779)</b>	288,141
<b>INCOME BEFORE INCOME TAX</b>		<b>1,402,188,168</b>	1,479,997,626
<b>PROVISION FOR INCOME TAX</b>	18	<b>331,724,941</b>	370,310,829
<b>NET INCOME</b>		<b>1,070,463,227</b>	1,109,686,797
<b>OTHER COMPREHENSIVE LOSS</b>			
<b>Item that will not be reclassified to profit or loss in subsequent periods</b>			
Remeasurement losses on retirement benefits	17	<b>(333,719)</b>	(924,681)
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>P1,070,129,508</b>	P1,108,762,116

*See Notes to Financial Statements.*

**MONTOSCO, INC.**  
**(A Wholly-owned Subsidiary of Cosco Capital, Inc.)**  
**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

	Note	Capital Stock (Note 14)		Retained Earnings (Note 14)		Appropriated (Note 14)	Accumulated Remeasurements on Retirement Benefits (Note 17)	Total
		Unappropriated	Appropriated	Unappropriated	Appropriated			
Balances at January 1, 2019		P750,000,000	P643,053,859	P950,000,000	P559,855	P2,343,613,714		
Net income for the year		-	1,109,686,797	-	-	1,109,686,797		
Other comprehensive loss for the year		-	-	-	(924,681)	(924,681)		
Total comprehensive income (loss) for the year		-	1,109,686,797	-	(924,681)	1,108,762,116		
Cash dividend declaration	14	-	(50,000,000)	-	-	(50,000,000)		
Balances at December 31, 2019		750,000,000	1,702,740,656	950,000,000	(364,826)	3,402,375,830		
Net income for the year		-	1,070,463,227	-	-	1,070,463,227		
Other comprehensive loss for the year		-	-	-	(333,719)	(333,719)		
Total comprehensive income (loss) for the year		-	1,070,463,227	-	(333,719)	1,070,129,508		
Cash dividend declaration	14	-	(200,000,000)	-	-	(200,000,000)		
Balances at December 31, 2020		P750,000,000	P2,573,203,883	P950,000,000	(P698,545)	P4,272,505,338		

See Notes to Financial Statements.

**MONTOSCO, INC.**  
**(A Wholly-owned Subsidiary of Cosco Capital, Inc.)**

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**STATEMENTS OF CASH FLOWS**

		Years Ended December 31	
	Note	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax		P1,402,188,168	P1,479,997,626
Adjustments for:			
Depreciation and amortization	9, 16	42,101,134	16,351,559
Interest income	5	(19,644,118)	(3,195,077)
Unrealized foreign exchange losses - net		16,695,925	252,952
Interest expense	12, 13, 16	12,148,955	34,723,895
Retirement benefits costs	17	397,200	303,004
Operating income before working capital changes		1,453,887,264	1,528,433,959
Decrease (increase) in:			
Trade and other receivables		428,560,896	(596,189,873)
Inventories		1,496,069,631	(885,808,759)
Prepaid expenses and other current assets		(96,406,178)	295,015,740
Increase (decrease) in trade and other payables		(78,360,545)	546,585,766
Cash generated from operations		3,203,751,068	888,036,833
Income taxes paid		(318,371,477)	(315,843,151)
Interest received	5	19,644,118	3,195,077
Net cash from operating activities		2,905,023,709	575,388,759
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions to property and equipment	9	(15,490,607)	(3,436,241)
Additions to refundable deposits	16	(5,679,870)	(1,981,996)
Cash used in investing activities		(21,170,477)	(5,418,237)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Payments of:			
Advances from a stockholder	13	(659,500,000)	-
Notes payable	12	(120,000,000)	(353,000,000)
Dividends	14	(50,000,000)	(200,000,000)
Lease liabilities	16	(38,707,445)	(14,159,698)
Interest on advances from a stockholder	13	(6,118,577)	(30,798,416)
Interest on notes payable	12	(300,000)	(6,745,000)
Proceeds from availment of notes payable	12	-	120,000,000
Net cash used in financing activities		(874,626,022)	(484,703,114)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>			
		(3,349)	(23,874)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>2,009,223,861</b>	<b>85,243,534</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<b>167,845,035</b>	<b>82,601,501</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>5</b>	<b>P2,177,068,896</b>	<b>P167,845,035</b>

See Notes to Financial Statements.

**MONTOSCO, INC.**  
**(A Wholly-owned Subsidiary of Cosco Capital, Inc.)**

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**NOTES TO FINANCIAL STATEMENTS**

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**1. Reporting Entity**

Montosco, Inc. (the "Company") was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on August 13, 2008. The principal activity of the Company is to engage in the business of trading consumer goods on wholesale basis.

The Company is a wholly-owned subsidiary of Cosco Capital, Inc. (the "Parent Company"), a company incorporated in the Philippines. Cosco's shares of stock are listed for trading at the Philippine Stock Exchange (PSE).

The Company's registered office address is at the 1501 Federal Tower, Dasmariñas Street, Binondo, Manila.

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**2. Basis of Preparation**

Statement of Compliance

The financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). PFRS which are issued by the Philippine Financial Reporting Standards Council (FRSC), consist of PFRS, Philippine Accounting Standards (PAS), and Philippine Interpretations based on the International Financial Reporting Interpretations Committee (IFRIC) interpretations.

Basis of Measurement

The financial statements have been prepared on the historical cost basis of accounting except for the retirement benefits liability which is measured at the present value of the defined benefits obligation.

Functional and Presentation Currency

The financial statements are measured using the currency of the primary economic environment in which the Company operates. The financial statements are presented in Philippine peso, which is also the Company's functional currency. All amounts are rounded to the nearest peso, except when otherwise indicated.

Authorization for Issuance of the Financial Statements

The accompanying financial statements of the Company as at and for the years ended December 31, 2020 and 2019 were approved and authorized for issue by the Board of Directors (BOD) on April 6, 2021.

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### 3. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in these financial statements, except for the changes in accounting policies as explained below.

#### Adoption of New or Revised Standards, Amendments to Standards and Interpretations

The Company has adopted the following amendments to standards starting January 1, 2020 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption of these amendments to standards did not have any significant impact on the Company's financial statements. These are as follows:

- *Amendments to References to Conceptual Framework in PFRS Standards* sets out amendments to PFRS Standards, their accompanying documents and PFRS practice statements to reflect the issuance of the revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework). The 2018 Conceptual Framework includes: a new chapter on measurement; guidance on reporting financial performance; improved definitions of an asset and a liability, and guidance supporting these definitions; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Some Standards, their accompanying documents and PFRS practice statements contain references to, or quotations from, the International Accounting Standards Committee (IASB)'s Framework for the Preparation and Presentation of Financial Statements adopted by the International Accounting Standards Board (IASB) in 2001 or the Conceptual Framework for Financial Reporting issued in 2010. The amendments update some of those references and quotations so that they refer to the 2018 Conceptual Framework, and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

- *PAS 1, Presentation of Financial Statements* and *PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Material (Amendments)* refine the definition of material. The amended definition of material states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify the definition of material and its application by: (a) raising the threshold at which information becomes material by replacing the term "could influence" with "could reasonably be expected to influence"; (b) including the concept of "obscuring information" alongside the concept of "omitting" and "misstating" information in the definition; (c) clarifying that the users to which the definition refers are the primary users of general purpose financial statements referred to in the Conceptual Framework; (d) clarifying the explanatory paragraphs accompanying the definition; and (e) aligning the wording of the definition of material across PFRS Standards and other publications.

### Cash and Cash Equivalents

Cash includes cash on hand and in banks, which is subject to insignificant risk of changes in value and is used by the Company in managing its short-term commitments. Cash equivalents are short-term placements for varying periods of up to three months from its original maturity depending on the immediate cash requirements of the Company. Cash in banks and cash equivalents earn interest at the respective prevailing bank rates.

### Financial Instruments

#### *Date of Recognition*

The Company recognizes a financial asset or a financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases and sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

#### *Initial Recognition of Financial Instruments*

Financial instruments are recognized initially at fair value. The initial measurement of financial instruments, except for those financial assets and financial liabilities classified or designated at fair value through profit or loss (FVTPL), includes transaction costs.

#### *Classification and Measurement of Financial Instruments*

On initial recognition, the Company classifies its financial assets in the following categories: measured at amortized cost, financial assets at FVTPL and financial assets at fair value through other comprehensive income (FVOCI). The classification depends on the business model for managing the financial assets and the contractual terms of its cash flows.

The Company classifies its financial liabilities as either financial liabilities at amortized cost or financial liabilities at FVTPL. The Company classifies all financial liabilities at amortized cost, except for:

- (a) financial liabilities designated by the Company at initial recognition as at FVTPL, when doing so results in more relevant information.
- (b) financial liabilities that arise when the transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.
- (c) contingent consideration recognized by the Company in a business combination which shall subsequently be measured at fair value with changes recognized in profit or loss.
- (d) financial guarantee contracts and commitments to provide a loan at a below market interest rate which are initially measured at fair value and subsequently at higher of amortized amount and amount of loss allowance.

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

#### *Business Model Assessment*

The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated - e.g., whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

#### *Solely Payments of Principal and Interest Assessment*

Principal is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers contingent events that would change the amount or timing of cash flows, terms that may adjust the contractual coupon rate, including variable-rate features, prepayment and extension features, and terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse features).

The Company has no financial assets classified as financial assets at FVTPL and FVOCI as at December 31, 2020.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

#### *Financial Assets at Amortized Cost*

A financial asset is measured at amortized cost if it is held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

Included in this category are the Company's cash in banks, cash equivalents, trade and other receivables and refundable deposits.

#### *Financial Liabilities at Amortized Cost*



This category pertains to financial liabilities that are not held for trading or designated as at FVTPL upon inception of the liability. These include liabilities arising from operations or borrowings. The financial liabilities are recognized initially at fair value and subsequently carried at amortized cost, taking into account the impact of applying the effective interest rate method of amortization for any related premium, discount and any directly attributable transaction costs. These financial liabilities are included in current liabilities if maturity is within twelve months from reporting date. Otherwise, these are classified as noncurrent liabilities.

This category includes the Company's trade and other payables (excluding statutory obligations), notes payable, dividends payable, advances from a stockholder and lease liabilities as at December 31, 2020 and 2019.

#### Impairment of Financial Assets

The Company measures loss allowances at an amount equal to lifetime expected credit losses (ECLs), except for debt securities that are determined to have low credit risk at the reporting date and other debt securities and bank balances for which credit risk has not increased significantly since initial recognition, which are measured at 12-month ECLs.

Loss allowances for trade and other receivables is always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due. The Company considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security (if any is held) or the financial asset is more than 90 days past due on any material credit obligation to the Company.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. The 12-month ECLs are a portion of lifetime ECLs that represents the ECLs resulting from default events on the financial instrument that are possible within 12 months after the reporting date or a shorter period if the expected life of the instrument is less than 12 months.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

ECLs are probability weighted-estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Company assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the significant financial difficulty of the borrower or issuer, a breach of contract such as default, the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise, when it is probable that the borrower will enter bankruptcy or other financial reorganization, or the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

Financial assets are written off when there is no reasonable expectation of recovery. The Company categorizes financial assets recorded at amortized cost for write off when a debtor fails to make payments or when it is probable that the receivable will not be collected. Where amortized cost financial assets have been written off, the Company continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognized in profit or loss.

#### Derecognition of Financial Assets and Financial Liabilities

##### *Financial Assets*

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

- the rights to receive cash flows from the asset have expired;
- 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 rewards of the asset; or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards 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 is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

##### *Financial Liabilities*

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. The difference in the respective carrying amounts is recognized in profit or loss.

### Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is 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. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

### Fair Value Measurement

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 measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to the Company.

The fair value of an asset or a liability is measured using the assumptions that the market participants would use when pricing the asset or liability, assuming that the market participants act in their economic best interest.

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 markets 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 reassessing 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.

As at December 31, 2020 and 2019, no financial asset or financial liability was recognized at fair value. The Company has no other assets or liabilities with recurring and non-recurring fair value measurements.

### Inventories

Inventories, which consist of spirits, wines and water, are valued at the lower of cost and net realizable value (NRV). Cost is comprised of purchase price, expenditure incurred in acquiring the inventories and other costs incurred in bringing them to their present location and condition. Cost is determined using the first-in, first-out method.

NRV represents the estimated selling price less costs to be incurred in marketing, selling and distribution. In determining the NRV, the Company considers any adjustment necessary to write-down inventories to NRV for slow-moving and near expiry products based on physical inspection and management evaluation.

#### Prepaid Expenses and Other Current Assets

##### *Prepaid Expenses and Advances*

Prepaid expenses and advances represent expenses not yet incurred but already paid in cash. Prepaid expenses and advances are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are charged to profit or loss as these are consumed in operations or expire with the passage of time.

Prepaid expenses and advances are classified in the statement of financial position as current asset when the cost of goods or services related to the prepayment are expected to be incurred within one (1) year from the reporting date. Otherwise, prepayments are classified as noncurrent assets.

##### *Value-added Tax (VAT)*

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

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of tax included.

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of "Prepaid expenses and other current assets" account or "Trade and other payables" account in the statement of financial position.

#### Refundable Deposits

Refundable deposits are cash paid for the lease agreements covering the office spaces and warehouse which are expected to be refunded upon the termination of the lease. These are carried at net realizable value and classified as current for leases which will expire within 12 months from the reporting period otherwise, these will be classified as noncurrent.

#### Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization and any impairment in value. The initial cost of items of property and equipment consists of its purchase price, including import duties and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to profit or loss in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of the item of property and equipment.

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

	Number of Years
Transportation and delivery equipment	5
Leasehold improvements	3 or lease term, whichever is shorter
Office equipment	2
Furniture and fixtures	2
Computer software license	2

Depreciation and amortization of an item of property and equipment begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation or amortization ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, and the date the asset is derecognized.

The estimated useful lives and depreciation and amortization method are reviewed periodically to ensure that the periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation is recognized in the profit or loss. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and any impairment in value are removed from the accounts and any resulting gain or loss is recognized in profit or loss.

#### Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. The capitalization of borrowing costs: (i) commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred; (ii) is suspended during the extended periods in which active development, improvement and construction of the assets are interrupted; and (iii) ceases when substantially all the activities necessary to prepare the assets are completed. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds.

Other borrowing costs are recognized as expense in the period in which they are incurred.

### Impairment of Noncurrent Nonfinancial Assets

The Company assesses at end of each reporting period whether there is indication that its noncurrent nonfinancial assets which include property and equipment may be impaired. If any such indication exists and where the carrying amount exceeds the estimated recoverable amount, the assets or the cash generating unit (CGU) are written down to their recoverable amounts. The recoverable amount of the noncurrent nonfinancial assets is the greater of fair value less cost to sell and value-in-use. The fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's length transaction. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.

Impairment losses, if any, are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation and amortization charge are adjusted in future periods to allocate the asset's revised carrying amount on a systemic basis over its remaining useful life.

### Capital Stock

Ordinary or common shares are classified as equity. The proceeds from the issuance of ordinary or common shares are presented in equity as capital stock to the extent of the par value of the issued and outstanding shares and any excess of the proceeds over the par value of the shares issued, less any incremental costs directly attributable to the issuance, net of tax, is presented in equity as additional paid-in capital.

### Retained Earnings

Retained earnings represent the cumulative balance of periodic net income or loss, dividend contributions, correction of prior year errors, effect of changes in accounting policy and other capital adjustments.

Appropriated retained earnings are accumulated earnings set aside by the BOD for a specific purpose. Unappropriated retained earnings are the residual amount of retained earnings after appropriation.

### Dividends on Common Shares

Cash dividends on common shares are recognized as liability and deducted from equity when approved by the BOD of the Company. Stock dividend declared but not yet issued is presented as "Capital stock dividend distributable" in the statement of financial position. When the stock dividends are declared, the amount of stock dividends are treated as transfers from retained earnings to common shares.

Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date.

### Revenue Recognition

Revenue from contracts with customers is recognized upon transfer of goods to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods.

The following specific recognition criteria must also be met before revenue is recognized:

#### *Sale of Goods*

Revenue is recognized at the point in time when control of the asset is transferred to the customer, generally upon delivery. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized. Revenue is recognized net of variable consideration such as discounts, rebates, listing and slotting fees/display allowances and certain payments to customers post the initial sale of goods.

#### *Interest Income*

Interest income is recognized in profit or loss as it accrues, taking into account the effective yield on the asset.

### Cost and Expense Recognition

#### *Cost of Goods Sold*

Cost of goods sold is recognized when goods are shipped to the buyer. Expenses are recognized upon utilization of services or at the date they are incurred.

#### *Operating Expenses*

Operating expenses are costs incurred to sell or distribute the goods and administering the business. It includes documentation processing and delivery, among others. Operating expenses are expensed as incurred.

### 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 year in accordance with PFRS.

### Employee Benefits

#### *Short-term Employee Benefits*

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of the past service provided by the employee and the obligation can be estimated reliably.

#### *Retirement Benefits Liability and Costs*

The Company has an unfunded, noncontributory defined benefits retirement plan covering substantially all permanent, regular and full-time employees. The Company's obligation in respect of the defined benefits is calculated by estimating the amount of the future benefits that employees have earned in the current and prior period and discounting that amount.

The calculation of defined benefits obligations is performed on a periodic basis by a qualified actuary using the projected unit credit method.



Remeasurements of the retirement benefits liability, which comprise of actuarial gains and losses, are recognized immediately in other comprehensive income. The Company determines the interest expense on the retirement benefits liability for the period by applying the discount rate used to measure the retirement benefits liability at the beginning of the annual period to the then retirement benefits liability, taking into account any changes in the retirement benefits liability during the period as a result of benefit payments, if any. Interest expense and other expenses related to defined benefits plans are recognized in profit or loss.

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

### Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- the contract involves the use of an identified asset - this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and,
- the Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Company has the right to direct the use of the asset if either:
  - the Company has the right to operate the asset; or
  - the Company designed the asset in a way that predetermines how and for what purpose it will be used.

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

### *Company as Lessee*

The Company recognizes a right-of-use (ROU) asset and a lease liability at the lease commencement date. The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for accrued rent payable at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The ROU asset is subsequently amortized using the straight-line method from the commencement date to the end of the lease term unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the ROU asset reflects that the Company will exercise a purchase option. In that case, the ROU asset will be amortized over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the ROU asset is periodically reduced by impairment loss, if any, and adjusted for certain remeasurements of the lease liability. The ROU asset is presented as a separate line item in the statement of financial position.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following: (a) fixed payments, including in-substance payments; (b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date; (c) amounts expected to be payable under a residual value guarantee; and, (d) the exercise price under a purchase option the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise and extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate; if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee; or, if the Company changes its assessment of whether it will exercise a purchase, extension, or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the ROU asset, or is recorded in profit or loss if the carrying amount of the ROU asset has been reduced to zero.

The Company has presented interest expense on the lease liability separately from the amortization charge for the ROU asset. The interest expense on lease liability is presented under "Other income (charges)" in profit or loss.

#### Income Taxes

Provision for income tax is composed of current income tax and deferred income tax. Provision for income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income, in which case, it is recognized directly in equity or in other comprehensive income.

#### *Current Income Tax*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used as basis to compute the amount are those that have been enacted or substantively enacted at the reporting date.

#### *Deferred Income Tax*

Deferred income tax is provided, using the balance sheet liability method, 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 income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred income tax assets to be recovered.

Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

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

#### Related Party Transactions and Relationships

Related party relationships exist when the party has the ability to control, directly or indirectly, through one or more intermediaries, or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting entity and its key management personnel, directors or stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely to the legal form. Related parties may be individual or corporate entities.

#### Foreign Currency Denominated Transactions and Translation

Transactions in foreign currencies are recorded using the functional currency exchange rate at the date of transaction. Outstanding monetary assets and monetary liabilities denominated in foreign currencies are translated using the closing exchange rate at the reporting date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

#### Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of the provision to be reimbursed, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss, net of reimbursement. If the effect of the time value of money is material, provisions are discounted using the current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

### Contingencies

Contingent liabilities are not recognized in the financial statements but are disclosed in the notes to financial statements unless the outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but 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 position at the reporting date (adjusting events) are reflected in the financial statements. Events after the reporting date that are not adjusting events are disclosed in the notes to financial statements when material.

### Standards Issued but Not Yet Adopted

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2020. However, the Company has not applied the following new or amended standards in preparing these financial statements. Unless otherwise stated, none of these are expected to have a significant impact on the Company's financial statements.

The Company plans to adopt the following amended standards and interpretations on the respective effective dates, as applicable.

#### *Effective June 1, 2020*

- PFRS 16, *Leases - COVID-19-Related Rent Concessions (Amendments)* introduce an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. A lessee that applies the practical expedient is not required to assess whether eligible rent concessions are lease modifications, and accounts for them in accordance with other applicable guidance. The practical expedient apply if: the revised consideration is substantially the same or less than the original consideration; the reduction in lease payments relates to payments due on or before June 30, 2021; and, no other substantive changes have been made to the terms of the lease.

Lessees applying the practical expedient are required to disclose that fact, whether they have applied the practical expedient to all eligible rent concessions and, if not, the nature of the contracts to which they have applied the practical expedient; and the amount recognized in profit or loss for the reporting period arising from application of the practical expedient. No practical expedient is provided for lessors.

*Effective January 1, 2021*

- PFRS 9, *Financial Instruments*, PAS 39, *Financial Instruments: Recognition and Measurement*, PFRS 7, *Financial Instruments: Disclosures*, PFRS 4, *Insurance Contracts* and PFRS 16, *Leases - Interest Rate Benchmark Reform - Phase 2 (Amendments)* ensure that financial statements best reflect the economic effects of interest rate benchmark reforms. The Phase 2 amendments were issued and focus on the accounting once a new benchmark rate is in place. The reliefs allow companies not to recognize significant modification gains or losses on financial instruments and mitigate the risk of discontinuations of existing hedging relationships because of changes required by reforms. The amendments address issues that might affect financial reporting during the reform in the following key areas:
  - *Practical Expedient for Particular Changes to Contractual Cash Flows.* As a practical expedient, a company will account for a change in the basis for determining the contractual cash flows that is required by the reform by updating the effective interest rate of the financial instrument. If there are other changes to the basis for determining the contractual cash flows, then a company first applies the practical expedient to the changes required by the reform and then applies other applicable requirements of PFRS 9 to other changes. A similar practical expedient applies to insurers applying PAS 39 and lessees for lease modifications required by a reform.
  - *Relief from Specific Hedge Accounting Requirements.* The amendments enable and require companies to continue hedge accounting in circumstances when changes to hedged items and hedging instruments arise as a result of changes required by the reform. A company is required to amend the formal designation of hedging relationships to reflect the changes required by the reform. Reliefs are also provided for amounts accumulated in the cash flow hedge reserve, the separately identifiable requirement, groups of items designated as hedged items and retrospective effectiveness assessment under PAS 39.
  - *Disclosure Requirements.* To enable users of financial statements to understand the effect of reforms on a company's financial instruments and risk management strategy, additional disclosures are required on how transition to alternative benchmark rates are being managed, quantitative information about financial instruments indexed to rates yet to transition due to benchmark reform at the end of the reporting period, and the extent to which changes to the risk management strategy have occurred due to the risks identified in the transition.

The amendments apply retrospectively, but restatement of comparative information is not required. Earlier application is permitted.

*Effective January 1, 2022*

- PAS 16, *Property, Plant and Equipment - Proceeds before Intended Use (Amendments)* prohibit an entity from deducting from the cost of an item of property, plant and equipment the proceeds from selling items produced before that asset is available for use. The proceeds before intended use should be recognized in profit or loss, together with the costs of producing those items which are identified and measured in accordance with PAS 2, *Inventories*.

The amendments also clarify that testing whether an item of property, plant and equipment is functioning properly means assessing its technical and physical performance rather than assessing its financial performance.

For the sale of items that are not part of a company's ordinary activities, the amendments require the company to disclose separately the sales proceeds and related production cost recognized in profit or loss and specify the line items in which such proceeds and costs are included in the statement of comprehensive income. This disclosure is not required if such proceeds and cost are presented separately in the statement of comprehensive income.

The amendments apply retrospectively on or after January 1, 2022, but only to items of property, plant, and equipment made available for use on or after the beginning of the earliest period presented, recognizing the cumulative effect in the opening retained earnings (or other component of equity, as appropriate) of that earliest period presented. Earlier application is permitted.

- PAS 37, *Provisions, Contingent Liabilities and Contingent Assets - Onerous Contracts - Cost of Fulfilling a Contract (Amendments)* clarify that the cost of fulfilling a contract when assessing whether a contract is onerous includes all costs that relate directly to a contract - i.e. it comprise both incremental costs and an allocation of other direct costs.

The amendments apply prospectively on or after January 1, 2022. At the date of initial application, the cumulative effect of applying the amendments is recognized as an opening balance adjustment to retained earnings or other component of equity, as appropriate. Earlier application is permitted.

- *Annual Improvements to PFRS Standards 2018-2020*. This cycle of improvements contains amendments to four standards:
  - PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Subsidiary as a First-time Adopter (Amendment)* simplify the application of PFRS 1 for a subsidiary that becomes a first-time adopter of PFRS later than its parent. The subsidiary may elect to measure cumulative translation differences for all foreign operations at amounts included in the consolidated financial statements of the parent, based on the parent's date of transition to PFRS.
  - PFRS 9, *Financial Instruments - Fees in the '10 per cent' Test for Derecognition of Financial Liabilities (Amendment)* clarifies that for the purpose of performing the '10 per cent' test for derecognition of financial liabilities, the fees paid net of fees received included in the discounted cash flows include only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.
  - PFRS 16, *Leases - Lease Incentives (Amendment to Illustrative Examples)* deletes from the Illustrative Example 13 the reimbursement relating to leasehold improvements to remove the potential for confusion because the example had not explained clearly enough the conclusion as to whether the reimbursement would meet the definition of a lease incentive in PFRS 16.
  - PAS 41, *Agriculture - Taxation in Fair Value Measurements (Amendment)* removes the requirement to exclude cash flows for taxation when measuring fair value, thereby aligning the fair value measurement requirements in PAS 41 with those in PFRS 13 Fair Value Measurement.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022. Earlier application is permitted.

*Effective January 1, 2023*

- PAS 1, *Presentation of Financial Statements - Classification of Liabilities as Current or Non-current (Amendments)* promote consistency in application and clarify the requirements on determining whether a liability is current or non-current, the amendments:
  - removed the requirement for a right to defer settlement of a liability for at least twelve months after the reporting period to be unconditional and instead requires that the right must have substance and exist at the end of the reporting period;
  - clarified that a right to defer settlement exists only if the company complies with conditions specified in the loan agreement at the end of the reporting period, even if the lender does not test compliance until a later date; and
  - clarified that settlement of a liability includes transferring a company's own equity instruments to the counterparty, but conversion options that are classified as equity do not affect classification of the liability as current or non-current.

The amendments apply retrospectively for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted.

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#### **4. Management's Use of Judgments, Accounting Estimates and Assumptions**

The preparation of the financial statements in accordance with PFRS requires management to exercise judgments, make accounting estimates and use assumptions that affect reported amounts of assets, liabilities, income and expenses and related disclosures. Future events may occur which will cause the assumptions used in arriving at the accounting estimates to change. The effects of any change in accounting estimates are reflected in the financial statements as they become reasonably determinable.

Accounting judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

##### Judgments

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

##### *Determination of the Company's Functional Currency*

The Company considers factors, including but not limited to, the currency that mainly influences sales prices of its goods and the currency in which receipts from operating activities are usually retained. Based on the economic substance of the underlying circumstances relevant to the Company, the functional currency has been determined to be the Philippine peso. It is the currency that mainly influences the Company's operations.



### *Identifying a Lease*

The Company uses its judgment in assessing that a contract is, or contains, a lease when the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company has the right to control the asset if it has the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Company reassesses whether a contract is, or contains, a lease only if the terms and conditions of the contract are changed.

*As a Lessee.* The Company has entered into various contracts for the lease of warehouse space. The Company has determined that it has the right to control the use of the identified assets over their respective lease terms (see Note 16).

### *Determining Term and Discount Rate of Lease Arrangements*

Where the Company is the lessee, management is required to make judgments about the lease term and the appropriate discount rate to calculate the present value of the lease payments.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases entered into by the Company as lessee, management uses the incremental borrowing rate, being the rate that the Company would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Company uses an approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Company and makes adjustments specific to the lease.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if it is reasonably certain that the lease will be extended (or not terminated) and, as such, included within lease liabilities.

For leases of office space and warehouse, the following factors are usually the most relevant:

- If any leasehold improvements are expected to have a significant remaining value, the Company is typically reasonably certain to extend (or not terminate).
- If there are significant penalties to terminate (or not extend), the Company is typically reasonably certain to extend (or not terminate).
- Otherwise, the Company considers other factors, including historical lease durations, the costs and business disruption required to replace the leased asset, enforceability of the option, and business and other developments.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Company becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and is within the lessee's control, for example, when significant investment in the store is made which has a useful life beyond the current lease term

#### *Recognition of Revenue*

The Company uses its judgment in determining the timing of the transfer of control on the goods that it delivered. The Company determined that the control is transferred for sale of goods when the Company has transferred physical possession of the goods and obtained the right to payment for the goods which is upon the customer's acceptance of the goods at the customer's warehouse.

#### Accounting Estimates and Assumptions

The key estimates and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below:

#### *Allowance for Impairment Losses on Trade and Other Receivables and Refundable Deposits*

The Company uses the expected credit loss model in estimating the level of allowance which includes forecasts of future events and conditions. A credit loss is measured as the present value of all cash shortfalls (the difference between the cash flows that the Company expects to receive). The model represents a probability-weighted estimate of the difference over the remaining life of the receivables. The maturity of the Company's receivables is less than one year so the lifetime expected credit loss and the 12-month expected credit losses are similar. In addition, management assessed that the credit risk for its trade and other receivables and refundable deposits as at the reporting date are low as discussed in Note 19, therefore the Company did not have to assess whether a significant increase in credit risk has occurred. An increase in the allowance for impairment losses would increase the recorded operating expenses and decrease current assets.

The Company uses an allowance matrix to measure the ECLs of its trade receivables from individual customers. Loss rates are calculated using a "roll rate" method based on the probability of a receivable progressing through successive stages of delinquency to write-off. The loss rates computed were based on actual credit loss experience over the last three years. As the profile of the Company's trade receivables is substantially current and past due trade receivables are no more than one year, the computed estimated allowance using the loss rates is not significant to the Company's financial statements.

The combined carrying amounts of the Company's trade and other receivables and refundable deposits amounted to P1,026,151,133 and P1,449,032,159 as at December 31, 2020 and 2019, respectively (see Notes 6, 10 and 19).

#### *Determination of Net Realizable Value (NRV) of Inventories*

The Company's estimates of the NRV of inventories are based on the most reliable evidence available at the time the estimates are made, of the amount that the inventories are expected to be realized. These estimates consider the inventory obsolescence, physical deterioration, fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. A new assessment is made at NRV in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is a clear evidence of an increase in NRV because of changes in economic circumstances, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised NRV.

The carrying amounts of inventories as at December 31, 2020 and 2019 amounted to P1,931,696,218 and P3,427,765,849, respectively (see Note 7). No allowance to reduce inventory to NRV was recognized in 2020 and 2019.

#### *Estimation of Useful Lives of Property and Equipment*

The Company estimates the useful lives of property and equipment based on the period over which these 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 asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible that future financial performance could be materially affected by changes in these estimates brought about by changes in the factors mentioned. Any reduction in the estimated useful lives of the property and equipment would increase depreciation and amortization expense and decrease noncurrent assets.

The estimated useful lives of property and equipment is discussed in Note 3 to financial statements. There is no change in the estimated useful lives of property and equipment in 2020 and 2019.

The carrying amounts of property and equipment as at December 31, 2020 and 2019 amounted to P19,064,706 and P9,412,433, respectively (see Note 9).

#### *Estimation of Retirement Benefits Liability and Costs*

The cost of defined benefits retirement plans, as well as the present value of the retirement benefits obligation, is determined using actuarial valuations. The actuarial valuations involve making various assumptions. These include the determination of the discount rates, and future salary increases, among others. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefits obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting period.

The Company has retirement benefits liability amounted to P3,071,511 and P2,340,592 as at December 31, 2020 and 2019, respectively (see Note 17).

#### *Recognition of Deferred Income Tax Assets*

The Company reviews its deferred income tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. The Company also reviews the expected timing and tax rates upon reversal of temporary differences and adjusts the impact on deferred income tax accordingly. The Company's assessment on the recognition of deferred income tax assets is based on the forecasted taxable income of the subsequent reporting periods. This forecast is based on the Company's past results and future expectations on revenues and expenses. While the Company believes that its assumptions are appropriate and reasonable, significant changes in these assumptions may materially affect the Company's assessment of the realizability of deferred income tax assets and may lead to future addition to the provision for deferred income tax.

In 2020 and 2019, the Company elected to avail of the optional standard deduction (OSD) which is equivalent to 40% of total gross income. The Company intends to continue its availment of the optional standard deduction in the subsequent years.

As at December 31, 2020 and 2019, the Company has not recognized deferred income tax assets arising from temporary differences amounting to a total of P23,877,538 and P3,417,913, respectively (see Note 18).

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## 5. Cash and Cash Equivalents

This account consists of:

	<i>Note</i>	2020	2019
Cash on hand		P414,000	P439,000
Cash in banks	19	381,535,042	167,406,035
Cash equivalents	19	1,795,119,854	-
		<b>P2,177,068,896</b>	<b>P167,845,035</b>

Cash in banks earns interest at the respective bank deposit rates. Interest income earned from cash in banks which are recognized in profit or loss amounted to P18,572,419 and P3,195,077 for the years ended December 31, 2020 and 2019, respectively.

Cash equivalents pertain to short-term placements which have effective annual interest rate of 0.96% to 1.12% and maturities of 30 to 63 days. Interest income earned from cash equivalents which are recognized in profit or loss amounted to P1,071,699 and nil for the years ended December 31, 2020 and 2019, respectively.

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## 6. Trade and Other Receivables

This account consists of:

	<i>Note</i>	2020	2019
Trade			
Third parties		P720,499,807	P871,332,204
Related parties	13	293,683,616	567,717,139
Nontrade		2,044,990	5,393,020
Others		114,971	461,917
	19	<b>P1,016,343,384</b>	<b>P1,444,904,280</b>

Trade receivables are non-interest-bearing and are generally on a 30 to 60-day credit term.

Non-trade receivables pertain to receivables from suppliers for the reimbursements of expenses incurred by the Company for brand promotions. These are non-interest-bearing and are generally on a 30-day credit term.

There was no allowance for impairment losses on receivables as at December 31, 2020 and 2019.

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## 7. Inventories

This account consists of:

	<i>Note</i>	2020	2019
At cost:			
Spirits		P1,920,357,038	P3,392,677,145
Wines		11,334,080	34,883,522
Others		5,100	205,182
	15	<b>P1,931,696,218</b>	<b>P3,427,765,849</b>

Cost of goods sold recognized in profit or loss amounted to P4,263,929,855 and P6,130,312,640 in 2020 and 2019, respectively (see Note 15).

## 8. Prepaid Expenses and Other Current Assets

This account consists of:

	2020	2019
Prepaid duties and taxes	P527,925,659	P328,088,254
Advances to suppliers	10,255,355	84,110,586
Prepaid import charges	319,542	1,715,615
Input VAT	-	28,672,444
Other prepaid expenses	3,188,489	2,695,968
	<b>P541,689,045</b>	<b>P445,282,867</b>

Prepaid duties and taxes include advance payment for excise taxes, customs duties and seals for purchased goods not yet received.

Advances to suppliers pertain to partial down payment made by the Company to suppliers which will be applied against future billings.

## 9. Property and Equipment

The movements and balances in this account are as follows:

	Transportation and Delivery Equipment	Leasehold Improvements	Office Equipment	Furniture and Fixtures	Computer Software License	Total
<b>Cost</b>						
December 31, 2018	P14,024,807	P2,295,229	P1,676,694	P1,775,428	P -	P19,772,158
Additions	1,848,214	-	566,875	-	1,021,152	3,436,241
December 31, 2019	15,873,021	2,295,229	2,243,569	1,775,428	1,021,152	23,208,399
Additions	1,580,357	11,666,688	983,719	86,563	1,153,280	15,490,607
December 31, 2020	17,453,378	13,961,917	3,227,288	1,861,991	2,174,432	38,699,006
<b>Accumulated Depreciation and Amortization</b>						
December 31, 2018	5,219,549	2,097,200	1,519,571	1,765,427	-	10,601,747
Depreciation and amortization	2,503,146	198,029	249,144	8,000	235,900	3,194,219
December 31, 2019	7,722,695	2,295,229	1,768,715	1,773,427	235,900	13,795,966
Depreciation and amortization	2,749,271	2,032,377	463,336	10,694	582,656	5,838,334
December 31, 2020	10,471,966	4,327,606	2,232,051	1,784,121	818,556	19,634,300
<b>Net Book Value</b>						
December 31, 2019	P8,150,326	P -	P474,854	P2,001	P785,252	P9,412,433
December 31, 2020	P6,981,412	P9,654,311	P995,237	P77,870	P1,355,876	P19,064,706

Depreciation and amortization expense for the years ended December 31, 2020 and 2019 were charged as part of "Operating Expenses" in profit or loss.

The cost of fully depreciated property and equipment still in use amounted to P8,533,300 and P8,383,152 as at December 31, 2020 and 2019, respectively.

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## 10. Refundable Deposits

This account consists of:

	<i>Note</i>	<b>2020</b>	2019
Security deposits	16	<b>P9,660,931</b>	P3,981,061
Others		<b>146,818</b>	146,818
	19	<b>P9,807,749</b>	P4,127,879

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## 11. Trade and Other Payables

This account consists of:

	<i>Note</i>	<b>2020</b>	2019
Trade payables	19	<b>P825,449,286</b>	P992,362,760
Non-trade payables	19	<b>123,716,889</b>	112,569,905
Output VAT - net		<b>83,466,312</b>	-
Accrued expenses	19	<b>26,681,999</b>	17,486,364
Statutory obligations		<b>3,982,980</b>	2,546,406
		<b>P1,063,297,466</b>	P1,124,965,435

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Trade payables are non-interest-bearing and are generally on a 30 to 60-day payment term.

Non-trade payables are amounts owed to non-trade suppliers such as manpower agencies, freight companies and other non-trade payment transactions. These are non-interest-bearing and are generally on a 30-day payment term.

Accrued expenses consist of accruals for utilities, advertisement and other operating expenses.

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## 12. Notes Payable

In 2018, the Company entered into various unsecured, short-term loans with maturities of less than one year from Metropolitan Bank and Trust Company and Asia United Bank totaling to P203,000,000 with a fixed annual interest of 5.25% to 6.00% and P150,000,000 with fixed annual interest of 6.00%, respectively. These notes were paid in 2019.

On November 20, 2019, the Company obtained an unsecured, three-month loan from Metropolitan Bank and Trust Company amounting to P120,000,000 with a fixed interest of 4.50%. This loan was subsequently paid in 2020.

The proceed from these loan availments were intended to finance the Company's working capital requirements.

Interest expense recognized in profit or loss relating to notes payable amounted to P300,000 and P6,745,000 for the years ended December 31, 2020 and 2019, respectively.

### 13. Related Party Transactions

Transactions and account balances with related parties as at and for the years ended December 31 are as follows:

Category/ Transaction	Year	Ref	Transactions During the Year	Outstanding Balance		Terms	Conditions
				Receivable	Payable		
Parent Company							
▪ Dividends	2020	14	P200,000,000	P -	P200,000,000	Due and demandable	Unsecured
	2019	14	50,000,000	-	50,000,000		
Entities under Common Control							
▪ Sales of goods	2020	6, a	1,005,768,024	293,683,616	-	30 days credit term; non-interest bearing	Unsecured; no impairment
	2019	6, a	2,375,870,288	567,717,139	-		
▪ Lease expense	2020	16, b	41,993,178	-	104,244,728	Payable on a monthly basis	Unsecured
	2019	16, b	14,472,541	-	27,559,957		
Stockholder							
▪ Advances	2020	c	-	-	-	2 years; annual interest of 4%	Unsecured
	2019	c	-	-	659,500,000		
▪ Interest expense	2020	c	6,118,577	-	-	Annual interest of 4.00%, payable on a monthly basis	Unsecured
	2019	c	26,663,694	-	-		
	2020			P293,683,616	P304,244,728		
	2019			P567,717,139	P737,059,957		

- In the normal course of business, the Company distributes wines, liquors and water to entities under common control.
- The Company entered into lease agreements with an entity under common control for its office space and warehouse. Lease expenses include amortization expense on ROU assets and interest expense on lease liabilities (see Note 16).
- In 2018, the Company received cash advances from a stockholder in a form of promissory notes. These advances earn fixed annual interest rate of 4.00% with maturities of one (1) year. The advances were intended for the Company's working capital requirements to finance inventory purchases.

On November 5, 2019, both parties renewed the promissory note for the same amount and interest rate with a new maturity date of November 21, 2021. In June 2020, both parties terminated the promissory note and the Company paid in full the outstanding loan principal and interest.

Interest expense recognized in profit or loss relating to advances from a stockholder amounted to P6,118,577 and P26,663,694 for the years ended December 31, 2020 and 2019, respectively.

Amounts owed by and owed to related parties are to be settled in cash.

There is no key management compensation since the key management roles are functionally domiciled under the Parent Company.

### 14. Equity

#### Capital Stock

The balances as at December 31, 2020 and 2019 are as follows:

	Number of Shares	Amount
Authorized P100 par value	7,500,000	P750,000,000
<b>Issued and Outstanding</b>		
Balance at beginning and end of year	7,500,000	P750,000,000



Ordinary shares carry one vote per share and a right to dividends.

#### Declaration of Dividends

On December 18, 2018, the Company's BOD approved the declaration of cash dividends of P13.33 per share or an aggregate amount of P100,000,000, payable to stockholders of record as of the same date. These were paid in 2019.

On December 5, 2019, the Company's BOD approved the declaration of cash dividends of P6.66 per share or an aggregate amount of P50,000,000 payable to stockholders of record as of the same date. These were paid in 2020.

On December 18, 2020, the Company's BOD approved the declaration of cash dividends of P26.66 per share or an aggregate amount of P200,000,000, payable to stockholders of record as of the same date. These dividends are outstanding as of December 31, 2020.

#### Retained Earnings

Under the Philippine Corporation Code (the Code), stock corporations are prohibited from retaining surplus profits in excess of 100% of their paid-up capital stock except when justified by any of the reasons mentioned in the code.

On December 13, 2018, the BOD approved the appropriation of P950,000,000 from the Company's unappropriated retained earnings to finance the acquisition of land, and construction and establishment of new warehouse and related facilities. The construction is expected to be completed in December 2021.

As at December 31, 2020, the Company has unappropriated retained earnings in excess of its paid-up capital amounting to P1,823,203,883. These unappropriated retained earnings, which resulted substantially from the net income for the current year, will be subjected to yearly cycle of capital structure review wherein management will determine the amount of cash dividends to be declared, subject to statutory approvals and clearances. It is the Company's practice to declare cash dividends on a yearly basis subject to the availability of cash.

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#### **15. Cost of Goods Sold**

This account consists of:

	<i>Note</i>	<b>2020</b>	<b>2019</b>
Inventory at beginning of year	7	<b>P3,427,765,849</b>	P2,541,957,090
Net purchases		<b>2,767,860,224</b>	7,016,121,399
Total goods available for sale		<b>6,195,626,073</b>	9,558,078,489
Inventory at end of year	7	<b>1,931,696,218</b>	3,427,765,849
		<b>P4,263,929,855</b>	P6,130,312,640

## 16. Lease Agreements

### Company as Lessee

- a. The Company entered into a lease agreement with an entity under common control for its office space with an area of 150.84 square meters. The lease is for a period of two (2) years until June 30, 2016. The lease was renewed for another 3 years until June 30, 2019. The parties have agreed to further renew the lease for a period of three (3) years from July 1, 2019 to June 30, 2022. The lease has an annual escalation rate of 5%.
- b. The Company entered into a lease agreement with an entity under common control for a warehouse with an area of 5,770.84 square meters. The lease is for a period of two (2) years commencing on January 1, 2016 until December 31, 2017. The lease was renewed for another three (3) years until December 31, 2020. Subsequently, both parties agreed to further renew the lease contract for another three (3) years from January 1, 2021 to December 31, 2023.
- c. The Company entered into a lease agreement with an entity under common control for a warehouse with an area of 2,025.38 square meters. The lease is for a period of five (5) years from May 1, 2019 to April 30, 2024. The lease has annual escalation rate of 3%.
- d. The Company entered into a lease agreement with an entity under common control for a warehouse with an area of 8,822.50 square meters. The lease is for a period of five (5) years from January 1, 2020 to December 31, 2024. The lease has escalation rate of 5% starting January 1, 2022.

The lease payments provide for, among others, security deposits amounting to P9,660,931 and P3,981,061 as at December 31, 2020 and 2019, respectively, which are shown under "Refundable Deposits" account in the statements of financial position (see Note 10).

The Company recognized ROU assets and lease liabilities in relation to the above lease agreements. When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate as of date of lease commencement date. The weighted average rate applied is 4.74%.

The movements of the ROU assets and lease liabilities for the years ended December 31, 2020 and 2019 are as follows:

#### i. Right-of-Use Assets

	<i>Note</i>	<b>2020</b>	<b>2019</b>
Balance at beginning of year		<b>P26,735,588</b>	P20,667,907
Additions		<b>109,661,838</b>	19,225,021
Amortization charge for the year	13	<b>(36,262,800)</b>	(13,157,340)
Balance at end of year		<b>P100,134,626</b>	P26,735,588

ii. Lease Liabilities

	<i>Note</i>	2020	2019
Balance at beginning of year		P27,559,957	P21,179,433
Additions		109,661,838	19,225,021
Interest charge for the year	13	5,730,378	1,315,201
Payments made		(38,707,445)	(14,159,698)
Balance at end of year		P104,244,728	P27,559,957

Maturity analyses of the undiscounted lease liabilities as at December 31, 2020 and 2019 are as follows:

	Undiscounted Lease Payments	Interest	Present Value of Lease Liabilities
Not later than one year	P27,907,532	P4,386,569	P23,520,963
Later than one year but not later than five years	86,645,908	5,922,143	80,723,765
Balance at December 31, 2020	P114,553,440	P10,308,712	P104,244,728

	Undiscounted Lease Payments	Interest	Present Value of Lease Liabilities
Not later than one year	P15,416,045	P984,753	P14,431,292
Later than one year but not later than five years	14,164,593	1,035,928	13,128,665
Balance at December 31, 2019	P29,580,638	P2,020,681	P27,559,957

As at December 31, 2020 and 2019, the Company's lease liabilities are classified in the statements of financial positions as follows:

	2020	2019
Current	P23,520,963	P14,431,292
Noncurrent	80,723,765	13,128,665
	P104,244,728	P27,559,957

iii. Amounts recognized in profit or loss

	<i>Note</i>	2020	2019
Amortization expense		P36,262,800	P13,157,340
Interest on lease liabilities		5,730,378	1,315,201
	13	P41,993,178	P14,472,541

iv. Amounts recognized in the statements of cash flows

	2020	2019
Total cash outflow for leases	P38,707,445	P14,159,698

## 17. Retirement Benefits Liability

The Company has an unfunded, noncontributory, defined benefits retirement plan covering all of its regular, full-time employees. Under the plan, the employees are entitled to retirement benefits equivalent to an amount computed based on Republic Act No. 7641, *Retirement Pay Law*, equivalent to one-half month's salary for every year of service, with six months or more of service considered as one year.

Costs are determined in accordance with the actuarial studies made for the plan. Annual cost is determined using the projected unit credit method. The Company's latest actuarial valuation date is December 31, 2020.

The following table shows the reconciliation from the opening balances to the closing balances for retirement benefits liability and its components:

	2020	2019
<b>Balance at beginning of year</b>	<b>P2,340,592</b>	<b>P1,112,907</b>
<b>Recognized in Profit or Loss</b>		
Interest cost	121,945	83,691
Current service cost	275,255	219,313
	<b>397,200</b>	<b>303,004</b>
<b>Recognized in Other Comprehensive Income</b>		
Actuarial loss (gain) arising from:		
Change in demographic assumptions	691,013	(383,834)
Change in financial assumptions	(683,983)	1,258,666
Experience adjustments	326,689	49,849
	<b>333,719</b>	<b>924,681</b>
<b>Balance at end of year</b>	<b>P3,071,511</b>	<b>P2,340,592</b>

The retirement benefits costs is recognized as part of "Salaries and other employee benefits" account under operating expenses in profit or loss.

As at December 31, 2020 and 2019, accumulated remeasurements losses on retirement benefits amounted to P698,545 and P364,826, respectively, as presented in the statements of financial position.

The plan exposes the Company to actuarial risks such as interest rate risk, longevity risk and salary risk as follows:

### *Interest Risk*

The present value of the defined benefits obligation is calculated using a discount rate determined by reference to market yields to government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation.

### *Longevity and Salary Risks*

The present value of the defined obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

The principal actuarial assumptions (in percentages) used to determine retirement benefits are as follows:

	2020	2019
Discount rate	3.95%	5.21%
Future salary increases	5.00%	8.00%

Assumptions for mortality and disability rates are based on published statistics and mortality and disability tables.

The weighted average duration of defined benefits obligation is 11.7 and 11.8 years as at December 31, 2020 and 2019, respectively.

As at December 31, the reasonably possible changes to one of the relevant actuarial assumptions, while holding all other assumptions constant, would have affected the defined benefits liability by the amounts below:

	2020		2019	
	Defined Benefits Liability 1 Percent Increase	Defined Benefits Liability 1 Percent Decrease	Defined Benefits Liability 1 Percent Increase	Defined Benefits Liability 1 Percent Decrease
Discount rate	(P152,040)	P90,610	(P145,351)	P98,539
Salary increase rate	184,291	(122,860)	210,653	(163,841)

Although the analysis does not take into account the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumption shown.

#### *Funding Arrangements*

The plan is unfunded and noncontributory. Benefit claims under the retirement benefits plan obligation are paid directly by the Company when they become due.

#### *Asset-Liability Matching (ALM)*

The Company does not perform any ALM study. The Company has no plan assets to match against liabilities under the retirement plan.

Maturity analyses based on a ten (10) year projection of the expected future benefit payments is as follows:

	December 31, 2020				
	Carrying Amount	Contractual Cash Flows	Within 1 Year	Within 1 - 5 Years	More than 5 Years
Retirement benefits liability	P3,071,511	P3,877,944	P -	P897,588	P2,980,356

	December 31, 2019				
	Carrying Amount	Contractual Cash Flows	Within 1 Year	Within 1 - 5 Years	More than 5 Years
Retirement benefits liability	P2,340,592	P3,268,187	P -	P89,252	P3,178,935

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## 18. Income Taxes

The Company's provision for income tax are all current which represents regular corporate income tax (RCIT) in both years.

The Company elected to avail of the optional standard deduction (OSD) which is equivalent to 40% of total gross income in 2020 and 2019.

The reconciliation of the provision for income tax computed at the statutory income tax rate and the provision for income tax shown in profit or loss for the years ended December 31 is as follows:

	2020	2019
Income before income tax	P1,402,188,168	P1,479,997,626
Provision for income tax at the statutory income tax rate of 30%	P420,656,450	P443,999,288
Additions to (reductions from) income taxes resulting to the tax effects of:		
Availment of optional standard deduction	(92,654,574)	(246,873,886)
Non-deductible expenses	3,578,529	175,857,003
Change in unrecognized deferred income tax asset	6,037,771	(1,713,053)
Interest income subjected to final tax	(5,893,235)	(958,523)
Provision for income tax	P331,724,941	P370,310,829

The following table shows the amounts of temporary differences for which no deferred income tax asset was recognized because management believes that it is not probable that the tax benefits of these temporary differences will be availed of as the Company intends to continue its availment of the optional standard deduction in the subsequent years:

	2020	2019
Unrealized foreign exchange losses - net	P16,695,925	P252,952
PFRS16, Leases adjustment	4,110,102	824,369
Retirement benefits liability	3,071,511	2,340,592
	P23,877,538	P3,417,913

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## 19. Financial Risk and Capital Management Objectives and Policies

### Objectives and Policies

The Company's BOD has overall responsibility for the establishment and oversight of the Company's risk management framework. The BOD has delegated to management the responsibility of developing and monitoring the Company's risk management policies.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The BOD oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

The Company has exposure to the following risks from its use of financial instruments:

- Credit Risk
- Liquidity Risk
- Market Risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risks, and the Company's management of capital.

The Company's overall risk management program seeks to minimize potential adverse effects on the financial performance of the Company. There were no changes in the exposures to each of the above risks and to the Company's objectives, policies and processes for measuring and managing the risk from the previous period. The policies for managing specific risks are summarized below:

#### Credit Risk

Credit risk represents the risk of loss the Company would incur if credit customers and counterparties fail to perform their contractual obligations. The Company's credit risk arises from the Company's use of its financial assets. Credit risk management involves entering into financial transactions only with counterparties with acceptable credit rating.

The carrying amount of financial assets represents the maximum credit exposure to credit risk as at December 31 as follows:

	Note	2020	2019
Cash in banks	5	P381,535,042	167,406,035
Cash equivalents	5	1,795,119,854	-
Trade and other receivables	6	1,016,343,384	1,444,904,280
Refundable deposits	10, 16	9,807,749	4,127,879
		<b>P3,202,806,029</b>	<b>P1,616,438,194</b>

As at December 31, 2020 and 2019, the aging per class of financial assets is as follows:

	Neither Past Due nor Impaired	December 31, 2020				Total
		Past Due			Impaired	
		1 to 30 Days	31 to 120 Days	More than 120 Days		
Cash in banks	P381,535,042	P -	P -	P -	P -	P381,535,042
Cash equivalents	1,795,119,854	-	-	-	-	1,795,119,854
Trade and other receivables	912,803,186	98,427,738	5,112,460	-	-	1,016,343,384
Refundable deposits	9,807,749	-	-	-	-	9,807,749
	<b>P3,099,265,831</b>	<b>P98,427,738</b>	<b>P5,112,460</b>	<b>P -</b>	<b>P -</b>	<b>P3,202,806,029</b>

	Neither Past Due nor Impaired	December 31, 2019				Total
		Past Due			Impaired	
		1 to 30 Days	31 to 120 Days	More than 120 Days		
Cash in banks	P167,406,035	P -	P -	P -	P -	P167,406,035
Trade and other receivables	1,147,239,146	254,138,824	43,526,310	-	-	1,444,904,280
Refundable deposits	4,127,879	-	-	-	-	4,127,879
	<b>P1,318,773,060</b>	<b>P254,138,824</b>	<b>P43,526,310</b>	<b>P -</b>	<b>P -</b>	<b>P1,616,438,194</b>



As at December 31, 2020 and 2019, no allowance for impairment losses on trade and other receivables was recognized.

Based on the historical default rates, the Company believes that no impairment allowance is necessary in respect of trade and other receivables that are past due but not impaired because such accounts relate to customers that have good payment records with the Company. On the other hand, the Company believes that no impairment loss is necessary in respect of other financial assets since they are neither past due nor impaired.

The Company's policy is to enter into transactions with a diversity of credit worthy parties to mitigate any significant concentration of credit risk. There is no significant concentration of credit risk within the Company.

As at December 31, 2020 and 2019, the Company does not expect any counterparty, other than trade customers, to fail in meeting its obligations, thus, related risk is deemed to be insignificant.

#### *Credit Quality*

In monitoring and controlling credit extended to counterparty, the Company adopts a comprehensive credit rating system based on financial and non-financial assessments of its customers. Financial factors being considered comprised of the financial standing of the customer while the non-financial aspects include but are not limited to the assessment of the customer's nature of business, management profile, industry background, payment habit and both present and potential business dealings with the Company.

As at December 31, 2020 and 2019, the cash in banks, cash equivalents, trade receivables and refundable deposits which are neither past due nor impaired are categorized under high grade quality.

The Company assessed the credit quality of the following financial assets that are neither past due nor impaired as follows:

- a. Cash in banks and cash equivalents were assessed as high grade since these are deposited in reputable banks with a good credit standing, which have a low probability of insolvency and can be withdrawn anytime. The credit quality of these financial assets is considered to be high grade.
- b. Trade and other receivables were assessed as high grade since these have a high probability of collection and there is no history of default.
- c. Refundable deposits were assessed as high grade since these security deposits are refundable at the end of the lease term which is expected from a reputable service provider.

#### *Expected Credit Loss Assessment*

The Company allocates each exposure to a credit risk on data that are determined to be predictive of the risk of loss (including but not limited to external ratings, audited financial assets, management accounts and cash flow projections and available press information about customers) and applying expected credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default.

In measuring the expected credit losses, the trade and other receivables have been assessed on a collective basis as they pose shared credit risk characteristics. They have been grouped based on the days past due.

The following table provides information about the exposure to credit risk for trade and other receivables as at December 31, 2020 and 2019:

	2020		
	Gross Carrying Amount	Impairment Loss Allowance	Credit-impaired
Current (not past due)	P912,803,186	P -	No
1 - 30 days past due	98,427,738	-	No
31 - 120 days past due	5,112,460	-	No
Balance at December 31, 2020	P1,016,343,384	P -	

	2019		
	Gross Carrying Amount	Impairment Loss Allowance	Credit-impaired
Current (not past due)	P1,147,239,146	P -	No
1 - 30 days past due	254,138,824	-	No
31 - 120 days past due	43,526,310	-	No
Balance at December 31, 2019	P1,444,904,280	P -	

The Company uses an allowance matrix to measure the ECLs of trade and other receivables from individual customers.

Loss rates are based on actual credit loss experience over two years considering circumstances at the reporting date. Any adjustment to the loss rates for forecasts of future economic conditions are not expected to be material. The Company applies the simplified approach in providing for expected credit losses prescribed by PFRS 9, which permits the use of the lifetime expected loss provision and applies a provision matrix.

The maturity of the Company's receivables is less than one year so the lifetime expected credit losses and the 12-month expected credit losses are similar.

The additional allowance for impairment in respect of trade and other receivables of the Company as a result of the expected credit loss assessment amounted to nil as at December 31, 2020 and 2019. The application of the expected loss rates to the trade and other receivables of the Company does not have a material impact on the financial statements, hence, no additional provision was recognized during 2020.

Exposures within each credit risk grade are assessed based on delinquency and actual credit loss experience. The Company considered both historical loss rate and forward-looking assumptions. The Company assessed that the impact of forward-looking assumption is immaterial.

#### Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk by maintaining a balance between continuity of funding and flexibility in operations. Treasury controls and procedures are in place to ensure that sufficient cash is maintained to cover daily operational and working capital requirements, as well as capital expenditures and loan payments. Management closely monitors the Company's future and contingent obligations and sets up required cash reserves as necessary in accordance with internal requirements.

The following are contractual maturities of financial liabilities as at December 31:

	December 31, 2020			
	Carrying Amount	Contractual Cash Flows	1 Year or Less	More than 1 Year
<b>Financial Liabilities</b>				
Trade and other payables*	P975,848,174	P975,848,174	P975,848,174	P -
Dividends payable	200,000,000	200,000,000	200,000,000	-
Lease liabilities	104,244,728	114,553,440	27,907,532	86,645,908
<b>Total</b>	<b>P1,280,092,902</b>	<b>P1,290,401,614</b>	<b>P1,203,755,706</b>	<b>P86,645,908</b>

\*Excluding statutory obligations amounting to P87,449,292.

	December 31, 2019			
	Carrying Amount	Contractual Cash Flows	1 Year or Less	More than 1 Year
<b>Financial Liabilities</b>				
Trade and other payables*	P1,122,419,029	P1,122,419,029	P1,122,419,029	P -
Notes payable**	120,000,000	120,300,000	120,300,000	-
Advances from a stockholder***	659,500,000	708,522,833	26,380,000	682,142,833
Dividends payable	50,000,000	50,000,000	50,000,000	-
Lease liabilities	27,559,957	29,580,638	15,416,045	14,164,593
<b>Total</b>	<b>P1,979,478,986</b>	<b>P2,030,822,500</b>	<b>P1,334,515,074</b>	<b>P696,307,426</b>

\*Excluding statutory obligations amounting to P2,546,406.

\*\*Including future interest payable with interest rates of 4.50%.

\*\*\*Including of future interest payable with interest rates of 4.00%

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

### Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and other market prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. The Company is subject to various risks, including foreign currency risk and interest rate risk.

### *Interest Rate Risk*

Interest rate risks 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's exposure to the risk for changes in market interest rates relates mainly to the Company's notes payable and advances from a stockholder. The Company manages this risk by transacting its loans either with short-term maturities or with fixed interest rates. Accordingly, management believes that the Company does not have significant interest rate risk.

### *Foreign Currency Exchange Risk*

Foreign currency exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's exposure to foreign currency risk relates primarily to the Company's foreign currency-denominated monetary assets and monetary liabilities. The currencies in which these transactions are primarily denominated are in United States dollar (USD), Singaporean dollar (SGD) and Euro (EUR).

The following table shows the Company's foreign currency-denominated monetary assets and monetary liabilities and their Philippine peso (PHP) equivalents as at December 31:

	December 31, 2020			
	USD	SGD	EUR	PHP Equivalent
Foreign currency - denominated monetary asset:				
Cash	89,459	-	-	4,297,610
Foreign currency - denominated monetary liabilities				
Trade payables	-	15,892	13,975,474	820,788,549
Net foreign currency - denominated monetary asset (liabilities)	89,459	(15,892)	(13,975,474)	(816,490,939)
	December 31, 2019			
	USD	SGD	EUR	PHP Equivalent
Foreign currency - denominated monetary asset:				
Cash	325,460	-	-	16,515,167
Foreign currency - denominated monetary liabilities				
Trade payables	20,538	57,036	16,835,426	953,390,742
Net foreign currency - denominated monetary asset (liabilities)	304,922	(57,036)	(16,835,426)	(936,875,575)

In translating the foreign currency-denominated monetary assets and monetary liabilities into Philippine peso amounts, the significant exchange rates applied are as follows:

	2020	2019
USD	48.04	50.74
SGD	35.74	37.49
EUR	58.69	56.35

The following table demonstrates sensitivity of cash flows due to changes in foreign exchange rates with all variables held constant.

	December 31, 2020	
	Percentage Decrease in Foreign Exchange Rates	Increase (Decrease) in Income before Income Tax
USD	(5.32%)	(P228,633)
SGD	(4.67%)	26,525
EUR	4.15%	(34,039,154)
	December 31, 2019	
	Percentage Decrease in Foreign Exchange Rates	Increase (Decrease) in Income before Income Tax
USD	(3.76%)	(P581,071)
SGD	(2.55%)	54,571
EUR	(6.57%)	62,317,633

Changes in foreign exchange rates are based on the average of the banks' forecasted closing exchange rates during the first quarter of the following calendar year. A movement in the opposite direction would increase/decrease income before income tax by the same amount, on the basis that all other variables remains constant.

#### Capital Risk Management

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

The Company manages its capital structure and makes adjustments, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Company may pay-off existing debts, return capital to stockholders or issue new shares.

The Company defines capital as paid-in capital stock and retained earnings.

There were no changes in the Company's approach to capital management during the year.

The Chief Financial Officer has the overall responsibility for monitoring of capital in proportion to risk. Profiles for capital ratios are set in the light of changes in the Company's external environment and the risks underlying the Company's business operations and industry.

The Company is not subject to externally-imposed capital requirements.

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## **20. Fair Values of Financial Instruments**

#### *Cash in Banks, Cash Equivalents, Trade and Other Receivables, Trade and Other Payables and Dividends Payable*

The carrying amounts of the Company's cash in banks, cash equivalents, trade and other receivables, trade and other payables (excluding statutory obligations) and dividends payable approximate their fair values due to the short-term maturities of these financial instruments.

#### *Refundable Deposits*

The carrying amount of refundable deposits approximates its fair values as the impact of discounting is not significant.

#### *Notes Payable and Advances from a Stockholder*

The estimated fair values of notes payable and advances from a stockholder are based on the present value of expected future cash flows using the applicable market rates for similar types of loans at reporting date. The difference between the carrying amount and fair value of notes payable and advances from a stockholder is considered immaterial by management.

#### *Lease Liabilities*

The fair value of lease liabilities was estimated as the present value of all future cash flows discounted using the incremental borrowing rate. The carrying amounts approximate their fair values because the difference between the interest rates of these instruments and the prevailing market rates for similar instruments is not considered significant.

## 21. Reconciliation Between the Opening and Closing Balances for Liabilities Arising from Financing Activities

Reconciliation of movements of liabilities to cash flows arising from financing activities are as follows:

December 31, 2020						
	Notes Payable	Accrued Interests	Advances from a Stockholder	Dividends Payable	Lease Liabilities	Total
Balances at beginning of year	P120,000,000	P -	P659,500,000	P50,000,000	P27,559,957	P857,059,957
Payments of:						
Notes payable	(120,000,000)	-	-	-	-	(120,000,000)
Interest	-	(6,418,577)	-	-	-	(6,418,578)
Advances from a stockholder	-	-	(659,500,000)	-	-	(659,500,000)
Dividends payable	-	-	-	(50,000,000)	-	(60,000,000)
Lease liabilities	-	-	-	-	(38,707,445)	(38,707,445)
Non-cash additions from new lease agreements entered into during the year	-	-	-	-	109,681,838	109,681,838
Interest expense	-	6,418,577	-	-	5,730,378	12,148,955
Dividends declared	-	-	-	200,000,000	-	200,000,000
Balances at end of year	P -	P -	P -	P200,000,000	P104,244,728	P304,244,728

December 31, 2019						
	Notes Payable	Accrued Interests	Advances from a Stockholder	Dividends Payable	Lease Liabilities	Total
Balances at beginning of year	P353,000,000	P4,134,722	P659,500,000	P200,000,000	P21,179,433	P1,237,814,155
Payments of:						
Notes payable	(353,000,000)	-	-	-	-	(353,000,000)
Interest	-	(37,543,416)	-	-	-	(37,543,416)
Dividends payable	-	-	-	(200,000,000)	-	(200,000,000)
Lease liabilities	-	-	-	-	(14,159,698)	(14,159,698)
Proceeds from availment of:						
Notes payable	120,000,000	-	-	-	-	120,000,000
Non-cash additions from new lease agreements entered into during the year	-	-	-	-	19,225,021	19,225,021
Interest expense	-	33,408,684	-	-	1,315,201	34,723,895
Dividends declared	-	-	-	50,000,000	-	50,000,000
Balances at end of year	P120,000,000	P -	P659,500,000	P50,000,000	P27,559,957	P857,059,957

---

## 22. Subsequent Event

On March 26, 2021, the President of the Philippines has approved the Corporate Recovery and Tax Incentives for Enterprises or the CREATE Act, with nine (9) provisions vetoed by the President. Below are the salient features of the Act that are relevant to the Company:

- a. Corporate income tax rate is reduced from 30% to 20% for domestic corporations with net taxable income not exceeding P5 million and with total assets not exceeding P100 million. All other domestic corporations and resident foreign corporations will be subject to 25% income tax. Said reductions are effective July 1, 2020.
- b. Minimum corporate income tax (MCIT) rate is reduced from 2% to 1% effective July 1, 2020 to June 30, 2023.
- c. The imposition of improperly accumulated earnings tax has been repealed.

On April 8, 2021, the Bureau of Internal Revenue (BIR) issued the following implementing revenue regulations that are effective immediately upon publication:

- BIR RR No. 2-2021, *Amending Certain Provisions of Revenue Regulations No. 2-98, As Amended, to Implement the Amendments Introduced by Republic Act No. 11534, or the "Corporate Recovery and Tax Incentives for Enterprises Act" (CREATE), to the National Revenue Code of 1997, as Amended, Relative to the Final Tax on Certain Passive Income;*
- BIR RR No. 3-2021, *Rules and Regulations Implementing Section 3 of Republic Act (RA) No. 11534, Otherwise Known as the "Corporate Recovery and Tax Incentives for Enterprises Act" or "CREATE", Amending Section 20 of the National Internal Revenue Code of 1997, As Amended;*
- BIR RR No. 4-2021, *Implementing the Provisions on Value-Added Tax (VAT) and Percentage Tax Under Republic Act (RA) No. 11534, Otherwise Known as the "Corporate Recovery and Tax Incentives for Enterprises Act" (CREATE) Which Further Amended the National Revenue Code of 1997, as Amended, as Implemented by Revenue Regulations (RR) No. 16-2005 (Consolidated Value-Added Tax Regulations of 2005), As Amended; and*
- BIR RR No. 5-2021, *Implementing the New Income Tax Rates on the Regular Income of Corporations, on Certain Passive Incomes, Including Additional Allowable Deductions from Gross Income of Persons Engaged in Business or Practice of Profession Pursuant to Republic Act (RA) No. 11534 or the "Corporate Recovery and Tax Incentives for Enterprises Act" (CREATE), Which Further Amended the National Revenue Code (NIRC) of 1997.*

The enactment of the CREATE Law is a non-adjusting subsequent event thus, the current and deferred income taxes as at December 31, 2020 are measured using the applicable income tax rates as at December 31, 2020.

Further, the BIR has issued its Revenue Regulations No. 5-2021 to promulgate the implementation of the new income tax rates on the regular income of corporations, on certain passive incomes and additional allowable deductions of persons engaged in business or practice of profession as provided for in CREATE Law. The corporate income tax of the Company will be lowered from 30% to 25% for large corporations on which the Company would qualify, effective July 1, 2020.



Presented below is the estimated effect of changes in tax rates under the CREATE Act:

	As at December 31, 2020	Effect of Changes in Tax Rates	Amounts Based on the Reduced Tax Rates
<b>Statements of Comprehensive Income</b>			
Provision for income tax - current	P331,724,941	(P27,643,745)	P304,081,196
<b>Statements of Financial Position</b>			
Income tax payable	P152,685,581	(P27,643,745)	P125,041,836

**23. Supplementary Information Required by the Bureau of Internal Revenue (BIR) Based on Revenue Regulations No.15-2010**

In addition to the disclosures mandated under PFRS, and such other standards and/or conventions as may be adopted, companies are required by the BIR to provide in the notes to financial statements, certain supplementary information for the taxable year. The amounts relating to such supplementary information may not necessarily be the same with those amounts disclosed in the financial statements which were prepared in accordance with PFRS. The following is the supplementary information required for the taxable year ended December 31, 2020:

**a. VAT**

Output VAT	<b>P716,363,632</b>
<i>Account title used:</i>	
Basis of the Output VAT:	
Vatable sales	P5,943,060,525
Sale to government	26,636,411
Zero rated sales	135,078,041
Exempt sales	2,071,215
<b>Total sales</b>	<b>P6,106,846,192</b>
Input VAT	
Beginning of the year	P28,742,828
Current year transactions:	
a. Domestic purchases of goods other than capital goods	4,916,520
b. Importations other than capital goods	262,220,867
c. Others	48,327,836
Deductions from input tax	(103,132)
Other adjustments	1,658,070
<b>Total allowable input VAT</b>	<b>P345,762,989</b>
<b>Total Vat payable (refundable) during the year</b>	<b>P370,600,643</b>
<b>Less: VAT payments during the year</b>	<b>(287,134,331)</b>
<b>Net VAT payable (refundable) at the end of the year</b>	<b>P83,466,312</b>

**b. Customs Duties and Tariff Fees:**

Landed cost of imports	P2,185,173,885
Customs duties paid or accrued	121,770,851
	<b>P2,306,944,736</b>

**c. Excise Taxes**

Imported excisable items:	
a. Spirits	P801,186,346
b. Wines	10,616,625
	<b>P811,802,971</b>

**d. Documentary Stamp Tax**

<i>Documentary stamp tax paid during the year recognized under "Taxes and licenses" account under Operating Expenses</i>	
On loan instruments	P -
On others	877,086
	<b>P877,086</b>

**e. Withholding Taxes**

Expanded withholding taxes	P9,817,455
Tax on compensation and benefits	2,293,540
	<b>P12,110,995</b>

**f. All Other Taxes (Local and National)**

<i>Other taxes paid during the year recognized under "Taxes and licenses" account under Operating Expenses</i>	
License and permit fees	P8,084,462
Others	159,383
	<b>P8,243,845</b>

**g. Tax Cases and Assessment**

On February 14, 2020 and July 16, 2020, the Company received Letters of Authority from the BIR to examine the Company's books of accounts and other accounting records for the period January 1, 2019 to December 31, 2019.

In September to December 2020, the Company paid the total deficiency taxes, including penalties and interest, in relation to these assessments amounting to P5,509,853.

As at December 31, 2020, the Company has no pending nor outstanding tax cases.



R.G. Manabat & Co.  
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Philippines 1226  
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Fax +63 (2) 8894 1985  
Internet [www.home.kpmg/ph](http://www.home.kpmg/ph)  
Email [ph-inquiry@kpmg.com](mailto:ph-inquiry@kpmg.com)

**REPORT OF INDEPENDENT AUDITORS  
TO ACCOMPANY SUPPLEMENTARY INFORMATION FOR FILING  
WITH THE SECURITIES AND EXCHANGE COMMISSION**

The Board of Directors and Stockholders  
**Montosco, Inc.**  
1501 Federal Tower, Dasmarinas Street  
Binondo, Manila

We have audited, in accordance with Philippine Standards on Auditing, the financial statements of Montosco, Inc. (the "Company"), a wholly-owned subsidiary of Cosco Capital, Inc., as at and for the years ended December 31, 2020 and 2019, on which we have rendered our report dated April 16, 2021.

Our audits were made for the purpose of forming an opinion on the basic financial statements of the Company taken as a whole. The supplementary information included in the following accompanying Schedule of Reconciliation of Retained Earnings Available for Dividend Declaration is the responsibility of the Company's management.

**Firm Regulatory Registration & Accreditation:**

PRC-BOA Registration No. 0003, valid until November 21, 2023

SEC Accreditation No. 0003-SEC, Group A, valid for five (5) years covering the audit of 2020 to 2024

financial statements (2019 financial statements are covered by SEC Accreditation No. 0004-FR-5)

IC Accreditation No. 0003-IC, Group A, valid for five (5) years covering the audit of 2020 to 2024

financial statements (2019 financial statements are covered by IC Circular Letter (CL) No. 2019-39, Transition clause)

BSP Accreditation No. 0003-BSP, Group A, valid for five (5) years covering the audit of 2020 to 2024

financial statements (2020 financial statements are covered by BSP Circular Letter (CL) No. 0003-FR-19, Transition clause)



This supplementary information is presented for purposes of complying with the Revised Securities Regulation Code Rule 68 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

**R.G. MANABAT & CO.**

*Gregorio I. Sambrano, Jr.*  
GREGORIO I. SAMBRANO, JR.  
Partner

CPA License No. 088825

SEC Accreditation No. 1548-AR-1, Group A, valid until December 17, 2021

Tax Identification No. 152-885-329

BIR Accreditation No. 08-001987-36-2018

Issued September 20, 2018; valid until September 19, 2021

PTR No. MKT 8533918

Issued January 4, 2021 at Makati City

April 16, 2021

Makati City, Metro Manila

**MONTOSCO, INC.**

**SCHEDULE OF RECONCILIATION OF RETAINED EARNINGS  
AVAILABLE FOR DIVIDEND DECLARATION  
FOR THE YEAR ENDED DECEMBER 31, 2020**

*(Figures based on  
functional currency  
audited financial  
statements)*

<b>Unappropriated Retained Earnings, January 1, 2020</b>	<b>P1,702,740,656</b>
<b>Net income based on the face of the audited financial statements</b>	<b>1,070,463,227</b>
<b>Less: Dividend declaration during the year</b>	<b>(200,000,000)</b>
<b>Unappropriated Retained Earnings, December 31, 2020</b>	<b>P2,573,203,883</b>



**STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR FINANCIAL STATEMENTS**

The management of **MERITUS PRIME DISTRIBUTIONS, INC.** (the "Company") is responsible for the preparation and fair presentation of the separate financial statements, including the schedule attached therein, as at and for the years ended **December 31, 2020 and 2019**, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of the separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate 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.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the separate financial statements including the schedule attached therein, and submits the same to the stockholders.

**R.G. Manabat & Co.**, the independent auditor appointed by the stockholders, has audited the separate financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

  
**CAMILLE CLARISSE P. CO**  
 President and Chairman of the Board

  
**CATHERINE W. CAI**  
 Treasurer



Meritus Prime &lt;meritus.bir@gmail.com&gt;

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1 message

**eafs@bir.gov.ph** <eafs@bir.gov.ph>

Thu, Apr 22, 2021 at 2:05 PM

To: MERITUS.BIR@gmail.com

Cc: CMILLECO@gmail.com

Hi MERITUS PRIME DISTRIBUTIONS, INC.,

**Valid files**

- EAFS007613210OTHTY122020.pdf
- EAFS007613210TCRTY122020-01.pdf
- EAFS007613210RPTTY122020.pdf
- EAFS007613210ITRTY122020.pdf
- EAFS007613210AFSTY122020.pdf

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- <None>

Transaction Code: **AFS-0-PSYYQN420CAD895C6QW4W32130KDBDDE5**Submission Date/Time: **Apr 22, 2021 02:05 PM**Company TIN: **007-613-210**

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- The submission is without prejudice to the right of the BIR to require additional document, if any, for completion and verification purposes;
- The hard copies of the documents submitted through this facility shall be submitted when required by the BIR in the event of audit/investigation and/or for any other legal purpose.

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# COVER SHEET

## for AUDITED FINANCIAL STATEMENTS

SEC Registration Number

C S 2 0 1 0 0 2 2 8 6

### COMPANY NAME

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C	a	p	i	t	a	l	,		I	n	c	.	)																	

### PRINCIPAL OFFICE (No. / Street / Barangay / City / Town / Province)

U	n	i	t		7	0	4		F	e	d	e	r	a	l		T	o	w	e	r									
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Form Type

A A F S

Department requiring the report

Secondary License Type, If Applicable

### COMPANY INFORMATION

Company's email Address

www.coscocapital.com

Company's Telephone Number/s

(02) 242-0635

Mobile Number

No. of Stockholders

7

Annual Meeting (Month / Day)

June 20

Fiscal Year (Month / Day)

December 31

### CONTACT PERSON INFORMATION

The designated contact person **MUST** be an Officer of the Corporation

Name of Contact Person

Camille Clarisse P. Co.

Email Address

Telephone Number/s

(02) 242-0635

Mobile Number

### CONTACT PERSON'S ADDRESS

704 Federal Tower, Dasmarinas Street, Binondo Manila

**Note 1:** In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

**2:** All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.

# MERITUS PRIME DISTRIBUTIONS, INC.

(A Wholly-owned Subsidiary of Cosco Capital, Inc.)

**FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

With Independent Auditors' Report



R.G. Manabat & Co.  
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Philippines 1226  
Telephone +63 (2) 8885 7000  
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Email [ph-inquiry@kpmg.com](mailto:ph-inquiry@kpmg.com)

## REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders  
**Meritus Prime Distributions, Inc.**  
704 Federal Tower, Dasmariñas St.  
Binondo, Manila

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of Meritus Prime Distributions, Inc. (the "Company"), a wholly-owned subsidiary of Cosco Capital, Inc., which comprise the statements of financial position as at December 31, 2020 and 2019, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended 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 *Auditors' 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 the 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.

Firm Regulatory Registration & Accreditation:  
PRC-BOA Registration No. 0003, valid until November 21, 2023  
SEC Accreditation No. 0003-SEC, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by SEC Accreditation No. 0004-FR-5)  
IC Accreditation No. 0003-IC, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by IC Circular Letter (CL) No. 2019-39, Transition clause)  
BSP Accreditation No. 0003-BSP, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by BSP Monetary Board Resolution No. 2161, Transition clause)



## *Responsibilities of Management and the Board of Directors for the Financial Statements*

Management is responsible for the preparation and fair presentation of the 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 its operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

## *Auditors' Responsibilities for the Audit of the 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 auditors' 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, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSA, we exercise professional judgment and maintain professional skepticism throughout the audits. 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 auditors' 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 auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.



- 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 the Board of Directors and management 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.

**Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010 of the Bureau of Internal Revenue**

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 23 to financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

**R.G. MANABAT & CO.**

*Gregorio I. Sambrano, Jr.*  
GREGORIO I. SAMBRANO, JR.  
Partner

CPA License No. 088825

SEC Accreditation No. 1548-AR-1, Group A, valid until December 17, 2021

Tax Identification No. 152-885-329

BIR Accreditation No. 08-001987-36-2018

Issued September 20, 2018; valid until September 19, 2021

PTR No. MKT 8533918

Issued January 4, 2021 at Makati City

April 16, 2021

Makati City, Metro Manila



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**REPORT OF INDEPENDENT AUDITORS  
TO ACCOMPANY FINANCIAL STATEMENTS FOR FILING  
WITH THE SECURITIES AND EXCHANGE COMMISSION**

The Board of Directors and Stockholders  
**Meritus Prime Distributions, Inc.**  
704 Federal Tower, Dasmariñas St.  
Binondo, Manila

We have audited the accompanying financial statements of Meritus Prime Distributions, Inc. (the "Company"), a wholly-owned subsidiary of Cosco Capital, Inc., as at and for the year ended December 31, 2020, on which we have rendered our report dated April 16, 2021.

In compliance with Revised Securities Regulation Code Rule 68, we are stating that the said Company has one (1) stockholder owning one hundred (100) or more shares.

**R.G. MANABAT & CO.**

  
GREGORIO I. SAMBRANO, JR.  
Partner

CPA License No. 088825  
SEC Accreditation No. 1548-AR-1, Group A, valid until December 17, 2021  
Tax Identification No. 152-885-329  
BIR Accreditation No. 08-001987-36-2018  
Issued September 20, 2018; valid until September 19, 2021  
PTR No. MKT 8533918  
Issued January 4, 2021 at Makati City

April 16, 2021  
Makati City, Metro Manila

Firm Regulatory Registration & Accreditation:  
PRC-BOA Registration No. 0003, valid until November 21, 2023  
SEC Accreditation No. 0003-SEC, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by SEC Accreditation No. 0004-FR-5)  
IC Accreditation No. 0003-IC, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by IC Circular Letter (CL) No. 2019-39, Transition clause)  
BSP Accreditation No. 0003-BSP, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by BSP Monetary Board Resolution No. 2161, Transition clause)

**MERITUS PRIME DISTRIBUTIONS, INC.**  
**(A Wholly-owned Subsidiary of Cosco Capital, Inc.)**  
**STATEMENTS OF FINANCIAL POSITION**

		December 31	
	Note	2020	2019
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash	5, 19	P48,672,143	P44,277,185
Trade and other receivables - net	6, 19	247,080,567	379,028,186
Inventories	7	1,053,904,313	717,189,440
Prepaid expenses and other current assets	8	67,473,036	348,493,202
<b>Total Current Assets</b>		<b>1,417,130,059</b>	<b>1,488,988,013</b>
<b>Noncurrent Assets</b>			
Property and equipment - net	9	495,165	924,248
Right-of-use assets - net	16	-	2,458,959
Refundable deposits	10, 19	903,181	883,080
Deferred income tax assets - net	18	208,531	855,851
<b>Total Noncurrent Assets</b>		<b>1,606,877</b>	<b>5,122,138</b>
		<b>P1,418,736,936</b>	<b>P1,494,110,151</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Trade and other payables	11	P147,471,642	P33,791,646
Loans payable	12, 19	42,000,000	296,000,000
Income tax payable		17,354,611	16,214,652
Lease liabilities	16, 19	-	2,913,534
<b>Total Current Liabilities</b>		<b>206,826,253</b>	<b>348,919,832</b>
<b>Noncurrent Liability</b>			
Retirement benefits liability	17	694,701	760,153
<b>Total Liabilities</b>		<b>207,520,954</b>	<b>349,679,985</b>
<b>Equity</b>			
Capital stock	14	750,000,000	750,000,000
Retained earnings		460,252,069	393,606,397
Accumulated remeasurements on retirement benefits	17	963,913	823,769
<b>Total Equity</b>		<b>1,211,215,982</b>	<b>1,144,430,166</b>
		<b>P1,418,736,936</b>	<b>P1,494,110,151</b>

*See Notes to Financial Statements.*



**MERITUS PRIME DISTRIBUTIONS, INC.**  
**(A Wholly-owned Subsidiary of Cosco Capital, Inc.)**  
**STATEMENTS OF COMPREHENSIVE INCOME**

		Years Ended December 31	
	Note	2020	2019
<b>NET SALES</b>	13	P839,540,715	P958,828,756
<b>COST OF GOODS SOLD</b>	15	682,655,651	780,137,292
<b>GROSS PROFIT</b>		156,885,064	178,691,464
<b>OPERATING EXPENSES</b>			
Outside services		13,599,386	14,765,449
Salaries and other employee benefits	17	11,174,496	12,377,632
Taxes and licenses		5,260,640	6,398,861
Advertising		3,829,998	12,850,187
Distribution cost		3,645,915	4,572,407
Deficiency taxes		3,504,799	6,278,733
Depreciation and amortization	9, 16	2,934,532	3,883,119
Insurance		2,501,039	1,844,564
Transportation and travel		1,371,993	2,526,242
Representation and entertainment		243,696	671,203
Miscellaneous		1,955,890	2,644,878
		<b>50,022,283</b>	<b>68,813,275</b>
<b>INCOME FROM OPERATIONS</b>		<b>106,862,781</b>	<b>109,878,189</b>
<b>OTHER INCOME (CHARGES) - Net</b>			
Interest expense	12, 16	(5,911,506)	(14,785,316)
Foreign exchange losses - net		(4,489,583)	(4,459,441)
Interest income	5	140,529	187,919
Bank charges		(61,235)	(107,404)
		<b>(10,321,795)</b>	<b>(19,164,242)</b>
<b>INCOME BEFORE INCOME TAX</b>		<b>96,540,986</b>	<b>90,713,947</b>
<b>PROVISION FOR INCOME TAX</b>	18	<b>29,895,314</b>	<b>28,662,954</b>
<b>NET INCOME</b>		<b>66,645,672</b>	<b>62,050,993</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
<b>Item that will never be reclassified to profit or loss in subsequent periods</b>			
Remeasurement gains on retirement benefits	17	200,206	83,345
Income tax effect	18	(60,062)	(25,004)
		<b>140,144</b>	<b>58,341</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>P66,785,816</b>	<b>P62,109,334</b>

*See Notes to Financial Statements.*

**MERITUS PRIME DISTRIBUTIONS, INC.**  
**(A Wholly-owned Subsidiary of Cosco Capital, Inc.)**

**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

	Capital Stock (Note 14)	Retained Earnings	Accumulated Remeasurements on Retirement Benefits (Note 17)	Total
Balances at December 31, 2018	P750,000,000	P331,555,404	P765,428	P1,082,320,832
Net income for the year	-	62,050,993	-	62,050,993
Other comprehensive income for the year	-	-	58,341	58,341
Total comprehensive income for the year	-	62,050,993	58,341	62,109,334
Balances at December 31, 2019	750,000,000	393,606,397	823,769	1,144,430,166
Net income for the year	-	66,645,672	-	66,645,672
Other comprehensive income for the year	-	-	140,144	140,144
Total comprehensive income for the year	-	66,645,672	140,144	66,785,816
<b>Balances at December 31, 2020</b>	<b>P750,000,000</b>	<b>P460,252,069</b>	<b>P963,913</b>	<b>P1,211,215,982</b>

See Notes to Financial Statements.

**MERITUS PRIME DISTRIBUTIONS, INC.**  
**(A Wholly-owned Subsidiary of Cosco Capital, Inc.)**

**STATEMENTS OF CASH FLOWS**

		Years Ended December 31	
	Note	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax		P96,540,986	P90,713,947
Adjustments for:			
Interest expense	12, 13, 16	5,911,506	14,785,316
Depreciation and amortization	9, 16	2,934,532	3,883,119
Interest income	5	(140,529)	(187,919)
Retirement benefits costs	17	134,754	211,090
Unrealized foreign exchange losses - net		403	1,690
Operating income before working capital changes		105,381,652	109,407,243
Decrease (increase) in:			
Trade and other receivables		131,947,619	(124,761,457)
Inventories		(336,714,873)	(155,593,796)
Prepaid expenses and other current assets		281,020,166	2,159,286
Increase (decrease) in trade and other payables		114,376,892	(18,515,943)
Cash generated from (used in) operations		296,011,456	(187,304,667)
Income taxes paid		(28,168,097)	(24,471,101)
Interest received	5	140,529	187,919
Retirement benefits paid	17	-	(132,500)
Net cash from (used in) operating activities		267,983,888	(211,720,349)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions to property and equipment	9	(46,490)	(33,348)
Increase in refundable deposits	10	(20,101)	(9,144)
Cash used in investing activities		(66,591)	(42,492)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from availment of loans payable	21	97,000,000	394,000,000
Payments of:			
Loans payable	21	(351,000,000)	(98,000,000)
Interest paid	12, 21	(6,539,883)	(13,815,902)
Lease liabilities	16	(2,982,781)	(3,312,172)
Dividends	21	-	(75,000,000)
Net cash from (used in) financing activities		(263,522,664)	203,871,926
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>			
		325	(12,321)
<b>NET INCREASE (DECREASE) IN CASH</b>		<b>4,394,958</b>	<b>(7,903,236)</b>
<b>CASH AT BEGINNING OF YEAR</b>		<b>44,277,185</b>	<b>52,180,421</b>
<b>CASH AT END OF YEAR</b>	5	<b>P48,672,143</b>	<b>P44,277,185</b>

See Notes to Financial Statements.

**MERITUS PRIME DISTRIBUTIONS, INC.**  
**(A Wholly-owned Subsidiary of Cosco Capital, Inc.)**

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**NOTES TO FINANCIAL STATEMENTS**

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**1. Reporting Entity**

Meritus Prime Distributions, Inc. (the "Company") was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on February 17, 2010 to engage primarily in buying, selling, importing, exporting, manufacturing, repackaging, preparing, bottling, and distribution on wholesale of all kinds of wines, spirits, liquors, beers, and other alcoholic and non-alcoholic beverages and drinks.

The Company is a wholly-owned subsidiary of Cosco Capital, Inc. ("Cosco" or "Parent Company"), a company incorporated in the Philippines. Cosco is the ultimate Parent Company and its shares of stock are listed for trading at the Philippine Stock Exchange (PSE).

The Company's registered office address is at Unit 704 Federal Tower, Dasmarinas St., Binondo, Manila.

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**2. Basis of Preparation**

Statement of Compliance

The financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). PFRS which are issued by the Philippine Financial Reporting Standards Council (FRSC), consist of PFRS, Philippine Accounting Standards (PAS), and Philippine Interpretations based on the International Financial Reporting Interpretations Committee (IFRIC) interpretations.

Basis of Measurement

The financial statements have been prepared on the historical cost basis of accounting except for the retirement benefits liability which is measured at the present value of the defined benefits obligation.

Functional and Presentation Currency

The financial statements are measured using the currency of the primary economic environment in which the Company operates. The financial statements are presented in Philippine peso, which is also the Company's functional currency. All amounts are rounded to the nearest peso, except when otherwise indicated.

Authorization for Issuance of the Financial Statements

The accompanying financial statements of the Company as at and for the years ended December 31, 2020 and 2019 were approved and authorized for issue by the Company's Board of Directors (BOD) on April 6, 2021.

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### 3. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in these financial statements, except for the changes in accounting policies as explained below.

#### Adoption of New or Revised Standards, Amendments to Standards and Interpretations

The Company has adopted the following amendments to standards starting January 1, 2020 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption of these amendments to standards did not have any significant impact on the Company's financial statements. These are as follows:

- *Amendments to References to Conceptual Framework in PFRS Standards* sets out amendments to PFRS Standards, their accompanying documents and PFRS practice statements to reflect the issuance of the revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework). The 2018 Conceptual Framework includes: a new chapter on measurement; guidance on reporting financial performance; improved definitions of an asset and a liability, and guidance supporting these definitions; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Some Standards, their accompanying documents and PFRS practice statements contain references to, or quotations from, the International Accounting Standards Committee (IASC)'s Framework for the Preparation and Presentation of Financial Statements adopted by the International Accounting Standards Board (IASB) in 2001 or the Conceptual Framework for Financial Reporting issued in 2010. The amendments update some of those references and quotations so that they refer to the 2018 Conceptual Framework, and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

- *PAS 1, Presentation of Financial Statements* and *PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Material (Amendments)* refine the definition of material. The amended definition of material states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify the definition of material and its application by: (a) raising the threshold at which information becomes material by replacing the term "could influence" with "could reasonably be expected to influence"; (b) including the concept of "obscuring information" alongside the concept of "omitting" and "misstating" information in the definition; (c) clarifying that the users to which the definition refers are the primary users of general purpose financial statements referred to in the Conceptual Framework; (d) clarifying the explanatory paragraphs accompanying the definition; and (e) aligning the wording of the definition of material across PFRS Standards and other publications.

## Financial Instruments

### *Date of Recognition*

The Company recognizes a financial asset or a financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases and sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

### *Initial Recognition of Financial Instruments*

Financial instruments are recognized initially at fair value. The initial measurement of financial instruments, except for those financial assets and financial liabilities classified or designated at fair value through profit or loss (FVTPL), includes transaction costs.

### *Classification and Measurement of Financial Instruments*

On initial recognition, the Company classifies its financial assets in the following categories: measured at amortized cost, financial assets at FVTPL and financial assets at FVOCI. The classification depends on the business model for managing the financial assets and the contractual terms of its cash flows.

The Company classifies its financial liabilities as either financial liabilities at amortized cost or financial liabilities at FVTPL. The Company classifies all financial liabilities at amortized cost, except for:

- (a) financial liabilities designated by the Company at initial recognition as at FVTPL, when doing so results in more relevant information.
- (b) financial liabilities that arise when the transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.
- (c) contingent consideration recognized by the Company in a business combination which shall subsequently be measured at fair value with changes recognized in profit or loss.
- (d) financial guarantee contracts and commitments to provide a loan at a below market interest rate which are initially measured at fair value and subsequently at higher of amortized amount and amount of loss allowance.

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

### *Business Model Assessment*

The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

- how managers of the business are compensated - e.g., whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

#### *Solely Payments of Principal and Interest Assessment*

Principal is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers contingent events that would change the amount or timing of cash flows, terms that may adjust the contractual coupon rate, including variable-rate features, prepayment and extension features, and terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse features).

The Company has no financial assets classified as financial assets at FVTPL and FVOCI as at December 31, 2020 and 2019.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

#### *Financial Assets at Amortized Cost*

A financial asset is measured at amortized cost if it is held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

Included in this category are the Company's cash in banks, trade and other receivables and refundable deposits.

#### *Financial Liabilities at Amortized Cost*

This category pertains to financial liabilities that are not held for trading or designated as at FVTPL upon inception of the liability. These include liabilities arising from operations or borrowings. The financial liabilities are recognized initially at fair value and subsequently carried at amortized cost, taking into account the impact of applying the effective interest rate method of amortization for any related premium, discount and any directly attributable transaction costs. These financial liabilities are included in current liabilities if maturity is within twelve months from reporting date. Otherwise, these are classified as noncurrent liabilities.

This category includes the Company's trade and other payables (excluding statutory obligations), loans payable and lease liabilities as at December 31, 2020 and 2019.



### Impairment of Financial Assets

The Company measures loss allowances at an amount equal to lifetime ECLs, except for debt securities that are determined to have low credit risk at the reporting date and other debt securities and bank balances for which credit risk has not increased significantly since initial recognition, which are measured at 12-month ECLs.

Loss allowances for trade and other receivables is always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due. The Company considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security (if any is held) or the financial asset is more than 90 days past due on any material credit obligation to the Company.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. The 12-month ECLs are a portion of lifetime ECLs that represents the ECLs resulting from default events on the financial instrument that are possible within 12 months after the reporting date or a shorter period if the expected life of the instrument is less than 12 months.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

ECLs are probability weighted-estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Company assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the significant financial difficulty of the borrower or issuer, a breach of contract such as default, the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise, when it is probable that the borrower will enter bankruptcy or other financial reorganization, or the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

Financial assets are written off when there is no reasonable expectation of recovery. The Company categorizes financial assets recorded at amortized cost for write off when a debtor fails to make payments or when it is probable that the receivable will not be collected. Where amortized cost financial assets have been written off, the Company continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognized in profit or loss.

#### Derecognition of Financial Assets and Financial Liabilities

##### *Financial Assets*

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

- the rights to receive cash flows from the asset have expired;
- 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 rewards of the asset; or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards 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 is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

##### *Financial Liabilities*

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. The difference in the respective carrying amounts is recognized in profit or loss.

#### Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is 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. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

#### Fair Value Measurement

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 measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to the Company.

The fair value of an asset or a liability is measured using the assumptions that the market participants would use when pricing the asset or liability, assuming that the market participants act in their economic best interest.

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 markets 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 reassessing 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.

#### Inventories

Inventories, which consist of spirits and wines, are valued at the lower of cost and net realizable value (NRV). Cost is comprised of purchase price, expenditure incurred in acquiring the inventories and other costs incurred in bringing them to their present location and condition. Cost is determined using the first-in, first-out method.

NRV represents the estimated selling price less costs to be incurred in marketing, selling and distribution. In determining the NRV, the Company considers any adjustment necessary to write-down inventories to NRV for slow-moving and near expiry products based on physical inspection and management evaluation.

#### Prepaid Expenses and Other Current Assets

##### *Prepaid Expenses and Advances*

Prepaid expenses and advances represent expenses not yet incurred but already paid in cash. Prepaid expenses and advances are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are charged to profit or loss as these are consumed in operations or expire with the passage of time.

Prepaid expenses and advances are classified in the statement of financial position as current asset when the cost of goods or services related to the prepayment are expected to be incurred within one (1) year from the reporting date. Otherwise, prepayments are classified as noncurrent assets.

### Value-added Tax (VAT)

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

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of tax included.

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of "Prepaid expenses and other current assets" account or "Trade and other payables" account in the statement of financial position.

### Refundable Deposits

Refundable deposits are cash paid for the lease agreements covering the office spaces and warehouse which are expected to be refunded upon the termination of the lease. These are carried at net realizable value and classified as current for leases which will expire within 12 months from the reporting period otherwise, these will be classified as noncurrent.

### Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization and any impairment in value. The initial cost of items of property and equipment consists of its purchase price, including import duties and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to profit or loss in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of the item of property and equipment.

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

	<u>Number of Years</u>
Transportation and delivery equipment	5
Furniture and fixtures	2
Office equipment	2
Leasehold improvements	3 or lease term, whichever is shorter

Depreciation and amortization of an item of property and equipment begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation or amortization ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, and the date the asset is derecognized.

The estimated useful lives and depreciation and amortization method are reviewed periodically to ensure that the periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation is recognized in the profit or loss. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and any impairment in value are removed from the accounts and any resulting gain or loss is recognized in profit or loss.

#### Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. The capitalization of borrowing costs: (i) commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred; (ii) is suspended during the extended periods in which active development, improvement and construction of the assets are interrupted; and (iii) ceases when substantially all the activities necessary to prepare the assets are completed. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds.

Other borrowing costs are recognized as expense in the period in which they are incurred.

#### Impairment of Noncurrent Nonfinancial Assets

The Company assesses at end of each reporting period whether there is indication that its noncurrent nonfinancial assets which include property and equipment may be impaired. If any such indication exists and where the carrying amount exceeds the estimated recoverable amount, the assets or the cash generating unit (CGU) are written down to their recoverable amounts. The recoverable amount of the noncurrent nonfinancial assets is the greater of fair value less cost to sell and value-in-use. The fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's length transaction. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.

Impairment losses, if any, are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation and amortization charge are adjusted in future periods to allocate the asset's revised carrying amount on a systemic basis over its remaining useful life.

#### Capital Stock

Ordinary or common shares are classified as equity. The proceeds from the issuance of ordinary or common shares are presented in equity as capital stock to the extent of the par value of the issued and outstanding shares and any excess of the proceeds over the par value of the shares issued, less any incremental costs directly attributable to the issuance, net of tax, is presented in equity as additional paid-in capital.

### Retained Earnings

Retained earnings represent the cumulative balance of periodic net income or loss, dividend contributions, correction of prior year errors, effect of changes in accounting policy and other capital adjustments.

### Dividends on Common Shares

Cash dividends on common shares are recognized as liability and deducted from equity when approved by the BOD of the Company. Stock dividend declared but not yet issued is presented as "Capital stock dividend distributable" in the statement of financial position. When the stock dividends are declared, the amount of stock dividends are treated as transfers from retained earnings to common shares.

Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date.

### Revenue Recognition

Revenue from contracts with customers is recognized upon transfer of goods to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods.

The following specific recognition criteria must also be met before revenue is recognized:

#### *Sale of Goods*

Revenue is recognized at the point in time when control of the asset is transferred to the customer, generally upon delivery. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized. Revenue is recognized net of variable consideration such as discounts, rebates, listing and slotting fees/display allowances and certain payments to customers post the initial sale of goods.

#### *Interest Income*

Interest income is recognized in profit or loss as it accrues, taking into account the effective yield on the asset.

### Cost and Expense Recognition

#### *Cost of Goods Sold*

Cost of goods sold is recognized when goods are shipped to the buyer. Expenses are recognized upon utilization of services or at the date they are incurred.

#### *Operating Expenses*

Operating expenses are costs incurred to sell or distribute the goods and administering the business. It includes documentation processing and delivery, among others. Operating expenses are expensed as incurred.

### Other Comprehensive Income

Other comprehensive income 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 year in accordance with PFRS.

### Employee Benefits

#### *Short-term Employee Benefits*

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of the past service provided by the employee and the obligation can be estimated reliably.

#### *Retirement Benefits Liability and Costs*

The Company has an unfunded, noncontributory defined benefits retirement plan covering substantially all permanent, regular and full-time employees. The Company's obligation in respect of the defined benefits is calculated by estimating the amount of the future benefits that employees have earned in the current and prior period and discounting that amount.

The calculation of defined benefits obligations is performed on a periodic basis by a qualified actuary using the projected unit credit method.

Remeasurements of the retirement benefits liability, which comprise of actuarial gains and losses, are recognized immediately in other comprehensive income. The Company determines the interest expense on the retirement benefits liability for the period by applying the discount rate used to measure the retirement benefits liability at the beginning of the annual period to the then retirement benefits liability, taking into account any changes in the retirement benefits liability during the period as a result of benefit payments, if any. Interest expense and other expenses related to defined benefits plans are recognized in profit or loss.

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

#### Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- the contract involves the use of an identified asset - this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and,
- the Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Company has the right to direct the use of the asset if either:
  - the Company has the right to operate the asset; or
  - the Company designed the asset in a way that predetermines how and for what purpose it will be used.

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.



#### *Company as Lessee*

The Company recognizes a ROU asset and a lease liability at the lease commencement date. The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for accrued rent payable at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The ROU asset is subsequently amortized using the straight-line method from the commencement date to the end of the lease term unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the ROU asset reflects that the Company will exercise a purchase option. In that case, the ROU asset will be amortized over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the ROU asset is periodically reduced by impairment loss, if any, and adjusted for certain remeasurements of the lease liability. The ROU asset is presented as a separate line item in the statement of financial position.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following: (a) fixed payments, including in-substance payments; (b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date; (c) amounts expected to be payable under a residual value guarantee; and, (d) the exercise price under a purchase option the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise and extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate; if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee; or, if the Company changes its assessment of whether it will exercise a purchase, extension, or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the ROU asset, or is recorded in profit or loss if the carrying amount of the ROU asset has been reduced to zero.

The Company has presented interest expense on the lease liability separately from the depreciation charge for the ROU asset. The interest expense on lease liability is presented under "Other income (charges)" in profit or loss.

### Income Taxes

Provision for income tax is composed of current income tax and deferred income tax. Provision for income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income, in which case, it is recognized directly in equity or in other comprehensive income.

#### *Current Income Tax*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used as basis to compute the amount are those that have been enacted or substantively enacted at the reporting date.

#### *Deferred Income Tax*

Deferred income tax is provided, using the balance sheet liability method, 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 income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences can be utilized.

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

Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

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

### Related Party Transactions and Relationships

Related party relationships exist when the party has the ability to control, directly or indirectly, through one or more intermediaries, or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting entity and its key management personnel, directors or stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely to the legal form. Related parties may be individual or corporate entities.

### Foreign Currency Denominated Transactions and Translation

Transactions in foreign currencies are recorded using the functional currency exchange rate at the date of transaction. Outstanding monetary assets and monetary liabilities denominated in foreign currencies are translated using the closing exchange rate at the reporting date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

### Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of the provision to be reimbursed, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss, net of reimbursement. If the effect of the time value of money is material, provisions are discounted using the current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

### Contingencies

Contingent liabilities are not recognized in the financial statements but are disclosed in the notes to financial statements unless the outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but 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 position at the reporting date (adjusting events) are reflected in the financial statements. Events after the reporting date that are not adjusting events are disclosed in the notes to financial statements when material.

### Standards Issued but Not Yet Adopted

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2020. However, the Company has not applied the following new or amended standards in preparing these financial statements. Unless otherwise stated, none of these are expected to have a significant impact on the Company's financial statements.

The Company plans to adopt the following amended standards and interpretations on the respective effective dates, as applicable.

#### *Effective June 1, 2020*

- PFRS 16, *Leases - COVID-19-Related Rent Concessions (Amendments)* introduce an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. A lessee that applies the practical expedient is not required to assess whether eligible rent concessions are lease modifications, and accounts for them in accordance with other applicable guidance. The practical expedient apply if: the revised consideration is substantially the same or less than the original consideration; the reduction in lease payments relates to payments due on or before June 30, 2021; and, no other substantive changes have been made to the terms of the lease.

Lessees applying the practical expedient are required to disclose that fact, whether they have applied the practical expedient to all eligible rent concessions and, if not, the nature of the contracts to which they have applied the practical expedient; and the amount recognized in profit or loss for the reporting period arising from application of the practical expedient. No practical expedient is provided for lessors.

*Effective January 1, 2021*

- PFRS 9, *Financial Instruments*, PAS 39, *Financial Instruments: Recognition and Measurement*, PFRS 7, *Financial Instruments: Disclosures*, PFRS 4, *Insurance Contracts* and PFRS 16, *Leases - Interest Rate Benchmark Reform - Phase 2 (Amendments)* ensure that financial statements best reflect the economic effects of interest rate benchmark reforms. The Phase 2 amendments were issued and focus on the accounting once a new benchmark rate is in place. The reliefs allow companies not to recognize significant modification gains or losses on financial instruments and mitigate the risk of discontinuations of existing hedging relationships because of changes required by reforms. The amendments address issues that might affect financial reporting during the reform in the following key areas:
  - *Practical Expedient for Particular Changes to Contractual Cash Flows.* As a practical expedient, a company will account for a change in the basis for determining the contractual cash flows that is required by the reform by updating the effective interest rate of the financial instrument. If there are other changes to the basis for determining the contractual cash flows, then a company first applies the practical expedient to the changes required by the reform and then applies other applicable requirements of PFRS 9 to other changes. A similar practical expedient applies to insurers applying PAS 39 and lessees for lease modifications required by a reform.
  - *Relief from Specific Hedge Accounting Requirements.* The amendments enable and require companies to continue hedge accounting in circumstances when changes to hedged items and hedging instruments arise as a result of changes required by the reform. A company is required to amend the formal designation of hedging relationships to reflect the changes required by the reform. Reliefs are also provided for amounts accumulated in the cash flow hedge reserve, the separately identifiable requirement, groups of items designated as hedged items and retrospective effectiveness assessment under PAS 39.
  - *Disclosure Requirements.* To enable users of financial statements to understand the effect of reforms on a company's financial instruments and risk management strategy, additional disclosures are required on how transition to alternative benchmark rates are being managed, quantitative information about financial instruments indexed to rates yet to transition due to benchmark reform at the end of the reporting period, and the extent to which changes to the risk management strategy have occurred due to the risks identified in the transition.

The amendments apply retrospectively, but restatement of comparative information is not required. Earlier application is permitted.

*Effective January 1, 2022*

- PAS 16, *Property, Plant and Equipment - Proceeds before Intended Use (Amendments)* prohibit an entity from deducting from the cost of an item of property, plant and equipment the proceeds from selling items produced before that asset is available for use. The proceeds before intended use should be recognized in profit or loss, together with the costs of producing those items which are identified and measured in accordance with PAS 2, *Inventories*.

The amendments also clarify that testing whether an item of property, plant and equipment is functioning properly means assessing its technical and physical performance rather than assessing its financial performance.

For the sale of items that are not part of a company's ordinary activities, the amendments require the company to disclose separately the sales proceeds and related production cost recognized in profit or loss and specify the line items in which such proceeds and costs are included in the statement of comprehensive income. This disclosure is not required if such proceeds and cost are presented separately in the statement of comprehensive income.

The amendments apply retrospectively on or after January 1, 2022, but only to items of property, plant, and equipment made available for use on or after the beginning of the earliest period presented, recognizing the cumulative effect in the opening retained earnings (or other component of equity, as appropriate) of that earliest period presented. Earlier application is permitted.

- *PAS 37, Provisions, Contingent Liabilities and Contingent Assets - Onerous Contracts - Cost of Fulfilling a Contract (Amendments)* clarify that the cost of fulfilling a contract when assessing whether a contract is onerous includes all costs that relate directly to a contract - i.e. it comprise both incremental costs and an allocation of other direct costs.

The amendments apply prospectively on or after January 1, 2022. At the date of initial application, the cumulative effect of applying the amendments is recognized as an opening balance adjustment to retained earnings or other component of equity, as appropriate. Earlier application is permitted.

- *Annual Improvements to PFRS Standards 2018-2020*. This cycle of improvements contains amendments to four standards:
  - *PFRS 1, First-time Adoption of Philippine Financial Reporting Standards - Subsidiary as a First-time Adopter (Amendment)* simplify the application of PFRS 1 for a subsidiary that becomes a first-time adopter of PFRS later than its parent. The subsidiary may elect to measure cumulative translation differences for all foreign operations at amounts included in the consolidated financial statements of the parent, based on the parent's date of transition to PFRS.
  - *PFRS 9, Financial Instruments - Fees in the '10 per cent' Test for Derecognition of Financial Liabilities (Amendment)* clarifies that for the purpose of performing the '10 per cent' test for derecognition of financial liabilities, the fees paid net of fees received included in the discounted cash flows include only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.
  - *PFRS 16, Leases - Lease Incentives (Amendment to Illustrative Examples)* deletes from the Illustrative Example 13 the reimbursement relating to leasehold improvements to remove the potential for confusion because the example had not explained clearly enough the conclusion as to whether the reimbursement would meet the definition of a lease incentive in PFRS 16.
  - *PAS 41, Agriculture - Taxation in Fair Value Measurements (Amendment)* removes the requirement to exclude cash flows for taxation when measuring fair value, thereby aligning the fair value measurement requirements in PAS 41 with those in PFRS 13 Fair Value Measurement.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022. Earlier application is permitted.

*Effective January 1, 2023*

- PAS 1, *Presentation of Financial Statements - Classification of Liabilities as Current or Non-current (Amendments)* promote consistency in application and clarify the requirements on determining whether a liability is current or non-current, the amendments:
  - removed the requirement for a right to defer settlement of a liability for at least twelve months after the reporting period to be unconditional and instead requires that the right must have substance and exist at the end of the reporting period;
  - clarified that a right to defer settlement exists only if the company complies with conditions specified in the loan agreement at the end of the reporting period, even if the lender does not test compliance until a later date; and
  - clarified that settlement of a liability includes transferring a company's own equity instruments to the counterparty, but conversion options that are classified as equity do not affect classification of the liability as current or non-current.

The amendments apply retrospectively for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted.

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#### **4. Management's Use of Judgments, Accounting Estimates, and Assumptions**

The preparation of the financial statements in accordance with PFRS requires management to exercise judgments, make accounting estimates and use assumptions that affect reported amounts of assets, liabilities, income and expenses and related disclosures. Future events may occur which will cause the assumptions used in arriving at the accounting estimates to change. The effects of any change in accounting estimates are reflected in the financial statements as they become reasonably determinable.

Accounting judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

##### Judgments

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

##### *Determination of the Company's Functional Currency*

The Company considers factors, including but not limited to, the currency that mainly influences sales prices of its goods and the currency in which receipts from operating activities are usually retained. Based on the economic substance of the underlying circumstances relevant to the Company, the functional currency has been determined to be the Philippine peso. It is the currency that mainly influences the Company's operations.

### *Identifying a Lease*

The Company uses its judgment in assessing that a contract is, or contains, a lease when the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company has the right to control the asset if it has the right to obtain substantially all of the economic benefits from the use of the identified asset and the right to direct the use of the identified asset. The Company reassesses whether a contract is, or contains, a lease only if the terms and conditions of the contract are changed.

*As a Lessee.* The Company has entered into various contracts for the lease of warehouse space. The Company has determined that it has the right to control the use of the identified assets over their respective lease terms (see Note 16).

### *Determining Term and Discount Rate of Lease Arrangements*

Where the Company is the lessee, management is required to make judgments about the lease term and the appropriate discount rate to calculate the present value of the lease payments.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases entered into by the Company as lessee, management uses the incremental borrowing rate, being the rate that the Company would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Company uses an approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Company and makes adjustments specific to the lease.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if it is reasonably certain that the lease will be extended (or not terminated) and, as such, included within lease liabilities.

For leases of warehouse, the following factors are usually the most relevant:

- If any leasehold improvements are expected to have a significant remaining value, the Company is typically reasonably certain to extend (or not terminate).
- If there are significant penalties to terminate (or not extend), the Company is typically reasonably certain to extend (or not terminate).
- Otherwise, the Company considers other factors, including historical lease durations, the costs and business disruption required to replace the leased asset, enforceability of the option, and business and other developments.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Company becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and is within the lessee's control, for example, when significant investment in the store is made which has a useful life beyond the current lease term.



### *Recognition of Revenue*

The Company uses its judgment in determining the timing of the transfer of control on the goods that it delivered. The Company determined that the control is transferred for sale of goods when the Company has transferred physical possession of the goods and obtained the right to payment for the goods which is upon the customer's acceptance of the goods at the customer's warehouse.

### Accounting Estimates and Assumptions

The key estimates and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below:

#### *Allowance for Impairment Losses on Trade and Other Receivables and Refundable Deposits*

The Company uses the expected credit loss model in estimating the level of allowance which includes forecasts of future events and conditions. A credit loss is measured as the present value of all cash shortfalls (the difference between the cash flows that the Company expects to receive). The model represents a probability-weighted estimate of the difference over the remaining life of the receivables. The maturity of the Company's receivables is less than one year so the lifetime expected credit loss and the 12-month expected credit losses are similar. In addition, management assessed that the credit risk for its trade and other receivables and refundable deposits as at the reporting date are low as discussed in Note 19, therefore the Company did not have to assess whether a significant increase in credit risk has occurred. An increase in the allowance for impairment losses would increase the recorded operating expenses and decrease current assets.

The Company uses an allowance matrix to measure the ECLs of its trade receivables from individual customers. Loss rates are calculated using a "roll rate" method based on the probability of a receivable progressing through successive stages of delinquency to write-off. The loss rates computed were based on actual credit loss experience over the last three years. As the profile of the Company's trade receivables is substantially current and past due trade receivables are no more than one year, the computed estimated allowance using the loss rates is not significant to the Company's financial statements.

The combined carrying amounts of the Company's trade and other receivables and refundable deposits are P247,983,748 and P379,911,266 as at December 31, 2020 and 2019, respectively (see Notes 6, 10 and 19).

#### *Determination of Net Realizable-Value (NRV) of Inventories*

The Company's estimates of the NRV of inventories are based on the most reliable evidence available at the time the estimates are made, of the amount that the inventories are expected to be realized. These estimates consider the inventory obsolescence, physical deterioration, fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. A new assessment is made at NRV in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is a clear evidence of an increase in NRV because of changes in economic circumstances, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised NRV.

The carrying amounts of inventories as at December 31, 2020 and 2019 are P1,053,904,313 and P717,189,440, respectively (see Note 7). No allowance to reduce inventory to NRV was recognized in 2020 and 2019.

*Estimation of Useful Lives of Property and Equipment*

The Company estimates the useful lives of property and equipment based on the period over which these 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 asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible that future financial performance could be materially affected by changes in these estimates brought about by changes in the factors mentioned. Any reduction in the estimated useful lives of the property and equipment would increase depreciation and amortization expense and decrease noncurrent assets.

The estimated useful life of property and equipment is discussed in Note 3 to financial statements. There is no change in the estimated useful life of property and equipment in 2020 and 2019.

The carrying amounts of property and equipment as at December 31, 2020 and 2019 amounted to P495,165 and P924,248, respectively (see Note 9).

*Estimation of Retirement Benefits Liability and Costs*

The cost of defined benefits retirement plans, as well as the present value of the retirement benefits obligation, is determined using actuarial valuations. The actuarial valuations involve making various assumptions. These include the determination of the discount rates, and future salary increases, among others. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefits obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting period.

The Company has retirement benefits liability amounting to P694,701 and P760,153 as at December 31, 2020 and 2019, respectively (see Note 17).

*Recognition of Deferred Income Tax Assets*

The Company reviews its deferred income tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. The Company also reviews the expected timing and tax rates upon reversal of temporary differences and adjusts the impact on deferred income tax accordingly. The Company's assessment on the recognition of deferred income tax assets is based on the forecasted taxable income of the subsequent reporting periods. This forecast is based on the Company's past results and future expectations on revenues and expenses. While the Company believes that its assumptions are appropriate and reasonable, significant changes in these assumptions may materially affect the Company's assessment of the realizability of deferred income tax assets and may lead to future addition to the provision for deferred income tax.

The Company has recognized deferred income tax assets amounting to P208,531 and P855,851 as at December 31, 2020 and 2019, respectively (see Note 18).

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## 5. Cash

This account consists of:

	<i>Note</i>	2020	2019
Cash on hand		P146,923	P164,000
Cash in banks	19	48,525,220	44,113,185
		<b>P48,672,143</b>	<b>P44,277,185</b>

Cash in banks earns interest at the respective bank deposit rates.

Interest income recognized in profit or loss amounted to P140,529 and P187,919 in 2020 and 2019, respectively.

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## 6. Trade and Other Receivables

This account consists of:

	<i>Note</i>	2020	2019
Trade:			
Related parties	13	P221,054,985	P247,536,614
Third parties		25,123,606	65,462,999
Non-trade		729,937	67,344,199
Receivable from employees		172,039	188,296
	19	247,080,567	380,532,108
Less allowance for impairment losses on trade receivables		-	1,503,922
	19	<b>P247,080,567</b>	<b>P379,028,186</b>

The Company's trade receivables are non-interest-bearing and are generally on a 30 to 60-day credit term.

Non-trade receivables pertain to receivables from suppliers for the reimbursements of expenses made by the Company for brand promotions. These are non-interest-bearing and are generally on a 30-day credit term.

Allowance for impairment losses on trade receivables amounting to P1,503,922 were written off during the year since it was proven uncollectible by the Company's management.

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## 7. Inventories

This account consists of:

	<i>Note</i>	2020	2019
At cost:			
Spirits		P1,018,728,287	P668,311,496
Wines		35,176,026	48,877,944
	15	<b>P1,053,904,313</b>	<b>P717,189,440</b>

Cost of goods sold recognized in profit or loss amounted to P682,655,651 and P780,137,292 in 2020 and 2019, respectively (see Note 15).

## 8. Prepaid Expenses and Other Current Assets

This account consists of:

	2020	2019
Advances to suppliers	P33,371,158	P325,526,836
Prepaid expenses:		
Input VAT	31,603,233	7,143,422
Duties and taxes	1,946,229	14,055,381
Other import charges	12,056	885,411
Others	540,360	882,152
	<b>P67,473,036</b>	<b>P348,493,202</b>

Advances to suppliers pertain to partial down payment made by the Company to suppliers and will be applied against future progress billings.

## 9. Property and Equipment

The movements and balances in this account are as follows:

	Transportation and Delivery Equipment	Furniture and Fixtures	Office Equipment	Leasehold Improvements	Computer Software License	Total
<b>Cost</b>						
December 31, 2018	P8,953,451	P1,072,385	P564,751	P1,794,809	P -	P12,385,396
Additions	-	-	33,348	-	-	33,348
December 31, 2019	8,953,451	1,072,385	598,099	1,794,809	-	12,418,744
Additions	-	-	-	-	46,490	46,490
December 31, 2020	8,953,451	1,072,385	598,099	1,794,809	46,490	12,465,234
<b>Accumulated Depreciation and Amortization</b>						
December 31, 2018	7,177,173	979,628	537,754	1,794,809	-	10,489,364
Depreciation and amortization	686,452	90,834	27,846	-	-	1,005,132
December 31, 2019	8,063,625	1,070,462	565,600	1,794,809	-	11,494,496
Depreciation and amortization	453,250	1,923	17,494	-	2,906	475,573
December 31, 2020	8,516,875	1,072,385	583,094	1,794,809	2,906	11,970,069
<b>Carrying Amounts</b>						
December 31, 2019	P889,826	P1,923	P32,499	P -	P -	P924,248
December 31, 2020	P436,576	P -	P15,005	P -	P43,584	P495,165

Depreciation and amortization expense for the years ended December 31, 2020 and 2019 were charged as part of operating expenses.

Fully depreciated property and equipment that are still being used by the Company have a total cost of P10,500,933 and P9,712,032 as at December 31, 2020 and 2019, respectively.

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## 10. Refundable Deposits

This account consists of:

	<i>Note</i>	2020	2019
Security deposits	16	P735,330	P715,229
Others		167,851	167,851
	19	P903,181	P883,080

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## 11. Trade and Other Payables

This account consists of:

	<i>Note</i>	2020	2019
Trade payables - third parties	19	P138,271,624	P8,761,124
Nontrade payables:			
Third parties	19	5,765,267	19,534,166
Related parties	13, 19	2,675,970	3,976,404
Statutory obligations		564,542	511,203
Accrued expenses	19	116,740	686,733
Others	19	77,499	322,016
		P147,471,642	P33,791,646

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Trade payables are non-interest-bearing and are generally on a 30 to 60-day payment term.

Non-trade payables are amounts owed to non-trade suppliers such as manpower agencies, freight companies, interest payable on loans and other non-trade transactions. These are non-interest-bearing and are generally on a 30-day payment term, except for related party balance which is due on demand.

Accrued expenses consist mainly of accruals for utilities and other operating charges.

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## 12. Loans Payable

The Company entered into various unsecured short-term loans agreements to finance the Company's working capital requirements as follows:

- a. In 2019, the Company entered into various unsecured, short-term loans with a maturity of less than one year from Asia United Bank totaling to P215,000,000 with fixed annual interest of 4.75% to 6.00%. This loan was subsequently paid in 2020.
- b. In 2019, the Company entered into various unsecured, short-term loans with a maturity of less than one year from Metropolitan Bank and Trust Company (MBTC) totaling to P81,000,000 with a fixed annual interest of 4.50% to 5.50%. This loan was subsequently paid in 2020. In 2020, the Company availed same type of loans amounting to P97,000,000 with a fixed annual interest of 3.5% to 5.00%.

Outstanding balance of Company's loan payable to MBTC amounted to P42,000,000 and P81,000,000 as at December 31, 2020 and 2019, respectively.

Interest expense recognized in profit or loss relating to these loans amounted to P5,842,259 and P14,569,549 in 2020 and 2019, respectively. As at December 31, 2020 and 2019, outstanding interest payable related to these loans recorded as part of "Non-trade payables" under "Trade and other payables" account in the statements of financial position amounted to P56,023 and P753,647, respectively (see Note 11).

### 13. Related Party Transactions

Transactions and account balances with related parties as at and for the years ended December 31 are as follows:

Category	Year	Note	Transactions During the Year	Outstanding Balance		Terms	Conditions	
				Due from Related Parties	Due to Related Parties			
<b>Entities under Common Control</b>								
• Sale of goods	2020	6, a	P881,661,336	P221,054,985	P -	30 days credit term; non-interest-bearing	Unsecured; no impairment	
	2019	6, a	734,974,442	247,536,614	-			
• Lease expense	2020	16, b	2,528,206	-	-	Monthly; non-interest-bearing	Unsecured	
	2019	16, b	3,093,754	-	2,913,534			
• Reimbursement of expenses	2020	11, c	2,675,970	-	2,675,970	Due on demand; non-interest bearing	Unsecured	
	2019	11, c	3,976,404	-	3,976,404			
				<b>2020</b>	<b>P221,054,985</b>	<b>P2,675,970</b>		
				<b>2019</b>	<b>P247,536,614</b>	<b>P6,889,938</b>		

- In the normal course of business, the Company distributes wines and liquors to entities under common control. The outstanding balance for the sale of goods transactions is presented as part of "Trade and Other Receivables - net" in the statements of financial position.
- The Company entered into lease agreements with an entity under common control for its office space and warehouse (see Note 16). The lease liabilities as at December 31, 2019 is presented as a separate line item in the statements of financial position.
- The Company has an outstanding balance with related parties for the merchandising payroll expenses initially paid by the latter. The outstanding balance for this transaction is reported as nontrade payables, which is part of "Trade and Other Payables" account in the statements of financial position.
- There is no key management compensation since the key management roles are functionally domiciled under the Parent Company.

Amounts owed by and owed to related parties are to be settled in cash.

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## 14. Equity

### Capital Stock

The balances as at December 31, 2020 and 2019 are as follows:

	Number of Shares	Amount
<b>Authorized</b>		
P100 par value	7,500,000	P750,000,000
<b>Issued and Outstanding</b>		
Balance at beginning and end of year	7,500,000	P750,000,000

Ordinary shares carry one vote per share and a right to dividends.

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## 15. Cost of Goods Sold

This account consists of:

	Note	2020	2019
Inventories at beginning of year	7	P717,189,440	P561,595,644
Add: Net purchases		1,019,370,524	935,731,088
Total goods available for sale		1,736,559,964	1,497,326,732
Less: Inventories at end of year	7	1,053,904,313	717,189,440
		P682,655,651	P780,137,292

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## 16. Lease Agreements

### Company as Lessee

- a. The Company entered into a lease agreement with an entity under common control for a warehouse. The term of the lease is for a period of five (5) years from January 1, 2016 to December 31, 2020. The lease has an annual escalation rate of 5%. The lease agreement was subsequently renewed in 2021 for a period of five (5) years from January 1, 2021 to December 31, 2025
- b. The Company entered into a lease agreement with an entity under common control for a warehouse with a lease term of three (3) years commencing on July 1, 2015 to June 30, 2017. The lease agreement was renewed for another three (3) years from July 1, 2017 to June 30, 2020. No renewal was made on this lease agreement after its expiration on June 30, 2020.

When measuring lease liabilities of the above lease agreements, the Company discounted lease payments using its incremental borrowing rate of 4.74%.



The movement of the ROU assets and lease liabilities for the years ended December 31, 2020 and 2019 are as follows:

i. Right-of-Use Assets

	<i>Note</i>	<b>2020</b>	<b>2019</b>
Balance at beginning of year		<b>P2,458,959</b>	P5,336,946
Amortization charge for the year	13	<b>(2,458,959)</b>	(2,877,987)
Balance at end of year		<b>P -</b>	P2,458,959

ii. Lease Liabilities

	<i>Note</i>	<b>2020</b>	<b>2019</b>
Balance at beginning of year		<b>P2,913,534</b>	P6,009,939
Interest charge for the year	13	<b>69,247</b>	215,767
Payments made		<b>(2,982,781)</b>	(3,312,172)
Balance at end of year		<b>P -</b>	P2,913,534

Maturity analyses of the undiscounted lease liabilities as at December 31, 2019 are as follows:

	<b>Undiscounted Lease Payments</b>	<b>Interest</b>	<b>Present Value of Lease Liabilities</b>
Not later than one year	<b>P2,982,781</b>	<b>P69,247</b>	<b>P2,913,534</b>

As at December 31, 2019, the Company's lease liabilities are classified under current liability in the statements of financial position.

iii. Amounts Recognized in Profit or Loss

	<b>2020</b>	<b>2019</b>
Amortization expense	<b>P2,458,959</b>	P2,877,987
Interest on lease liabilities	<b>69,247</b>	215,767
	<b>P2,528,206</b>	P3,093,754

iv. Amounts Recognized in the Statements of Cash Flows

	<b>2020</b>	<b>2019</b>
Total cash outflow for leases	<b>P2,982,781</b>	P3,312,172

The lease agreements provide for, among others, security deposits amounting to P735,330 and P715,229 as at December 31, 2020 and 2019, respectively, which are shown under "Refundable deposits" account in the statements of financial position (see Note 10).

## 17. Retirement Benefits Liability

The Company has an unfunded, noncontributory, defined benefits retirement plan covering all of its permanent, regular, and full-time employees. Costs are determined in accordance with the actuarial studies made for the plan. Under the plan, the employees are entitled to retirement benefits equivalent to an amount computed based on Republic Act No. 7641, *Retirement Pay Law*, equivalent to one-half month's salary for every year of service, with six months or more of service considered as one year.

Costs are determined in accordance with the actuarial studies made for the plan. Annual cost is determined using the projected unit credit method. The Company's latest actuarial valuation date is December 31, 2020.

The succeeding tables summarize the components of retirement benefits cost under a defined benefits retirement plan recognized in profit or loss and the amount of retirement benefits liability recognized in the statements of financial position.

	2020	2019
<b>Balance at beginning of year</b>	<b>P760,153</b>	P764,908
<b>Recognized in Profit or Loss</b>		
Interest cost	39,604	57,598
Current service cost	95,150	153,492
	<b>134,754</b>	211,090
<b>Recognized in Other Comprehensive Income</b>		
Actuarial loss (gain) arising from:		
Financial assumptions	(146,525)	438,219
Demographic assumptions	(116,664)	(862,118)
Experience adjustments	62,983	340,554
	<b>(200,206)</b>	(83,345)
Benefits paid	-	(132,500)
<b>Balance at end of year</b>	<b>P694,701</b>	P760,153

The retirement benefits cost is recognized as part of "Salaries and other employee benefits" account under operating expenses in profit or loss.

As at December 31, 2020 and 2019, accumulated remeasurements losses on retirement benefits, net of deferred income tax, amounted to P963,913 and P823,769, respectively, as presented in the statements of financial position.

The plan exposes the Company to actuarial risks such as interest rate risk, longevity risk and salary risk as follows:

### *Interest Risk*

The present value of the defined benefits obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation.

### *Longevity and Salary Risks*

The present value of the defined benefits obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

The principal actuarial assumptions used to determine retirement benefits in 2020 and 2019 are as follows:

	2020	2019
Discount rate	3.95%	5.21%
Future salary increases	5.00%	8.00%

Assumptions for mortality and disability rates are based on published statistics and mortality and disability tables.

The weighted average duration of defined benefits obligation is 11.1 and 13.4 years as at December 31, 2020 and 2019, respectively.

As at December 31, the reasonably possible changes to one of the relevant actuarial assumptions, while holding all other assumptions constant, would have affected the defined benefits obligation by the amounts below:

	2020		2019	
	1-Percent Increase	1 Percent Decrease	1 Percent Increase	1 Percent Decrease
Discount rate	(P34,388)	P20,494	(P47,206)	P32,002
Salary increase rate	41,682	(27,788)	68,414	(53,211)

Although the analysis does not take into account the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumption shown.

### *Funding Arrangements*

The plan is unfunded and non-contributory. Benefit claims under the defined benefits retirement obligation are paid directly by the Company when they become due.

### *Asset-liability Matching (ALM)*

The Company does not perform any ALM study. The Company has no plan assets to match against liabilities under the retirement benefits obligation.

Maturity analysis based on a ten (10) year projection of the expected future benefit payments is as follows:

	December 31, 2020				
	Carrying Amount	Contractual Cash Flows	Within 1 Year	Within 1-5 Years	More than 5 Years
Retirement benefits liability	P694,701	P703,973	P -	P340,005	P363,968

	December 31, 2019				
	Carrying Amount	Contractual Cash Flows	Within 1 Year	Within 1-5 Years	More than 5 Years
Retirement benefits liability	P760,153	P1,147,119	P -	P363,968	P783,151

## 18. Income Taxes

The components of provision for income tax are shown below:

	2020	2019
Current	P29,308,056	P28,667,685
Deferred	587,258	(4,731)
	P29,895,314	P28,662,954

The current provision for income tax represents regular corporate income tax (RCIT) in both years.

The reconciliation of the provision for income tax computed at the statutory income tax rate and the provision for income tax shown in profit or loss for the years ended December 31 is as follows:

	2020	2019
Income before income tax	P96,540,986	P90,713,947
Provision for income tax at the statutory income tax rate of 30%	P28,962,296	P27,214,184
Additions to (reductions from) income taxes resulting to the tax effects of:		
Non-deductible expenses	975,177	1,505,146
Interest income subjected to final tax	(42,159)	(56,376)
Provision for income tax	P29,895,314	P28,662,954

The components of the Company's net deferred income tax assets are as follows:

	Net Balance at December 31, 2019	Recognized During the Year	Net Balance at December 31, 2020
Deferred income tax assets (liability) recognized in profit or loss:			
Retirement benefits liability	P620,840	P676	P621,516
Unrealized foreign exchange loss (gain) - net	507	(386)	121
Allowance for impairment on trade receivables	451,177	(451,177)	-
PFRS 16, Leases adjustment	136,371	(136,371)	-
	1,208,895	(587,258)	621,637
Deferred income tax liability recognized directly in other comprehensive income:			
Retirement benefits liability	(353,044)	(60,062)	(413,106)
Deferred income tax assets - net	P855,851	(P647,320)	P208,531

	Net Balance at December 31, 2018	Recognized During the Year	Net Balance at December 31, 2019
Deferred income tax assets (liability) recognized in profit or loss:			
Retirement benefits liability	P557,513	P63,327	P620,840
Allowance for impairment on trade receivables	451,177	-	451,177
PFRS 16, Leases adjustment	201,897	(65,526)	136,371
Unrealized foreign exchange loss (gain) - net	(6,423)	6,930	507
	1,204,164	4,731	1,208,895
Deferred income tax liability recognized directly in other comprehensive income:			
Retirement benefits liability	(328,040)	(25,004)	(353,044)
Deferred income tax assets - net	P876,124	(P20,273)	P855,851

## 19. Financial Risk and Capital Management

### Objectives and Policies

The BOD has overall responsibility for the establishment and oversight of the Company's risk management framework. The BOD has delegated to the management the responsibility of developing and monitoring the Company's risk management policies.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The BOD oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

The Company has exposure to the following risks from its use of financial instruments:

- Credit Risk
- Liquidity Risk
- Market Risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risks, and the Company's management of capital.

### Risk Management Framework

The Company's overall risk management program seeks to minimize potential adverse effects on the financial performance of the Company. The policies for managing specific risks are summarized below:

#### *Credit Risk*

Credit risk represents the risk of loss the Company would incur if credit customers and counterparties fail to perform their contractual obligations. The Company's credit risk arises from the Company's use of its financial assets. Credit risk management involves entering into financial transactions only with counterparties with acceptable credit rating.

The carrying amount of financial assets represents the maximum credit exposure is as follows:

	<i>Note</i>	<b>2020</b>	<b>2019</b>
Cash in banks	5	<b>P48,525,220</b>	P44,113,185
Trade and other receivables - net	6	<b>247,080,567</b>	379,028,186
Refundable deposits	10	<b>903,181</b>	883,080
		<b>296,508,968</b>	P424,024,451

As at December 31, 2020 and 2019, the aging per class of financial assets is as follows:

	December 31, 2020				
	Neither Past Due nor Impaired	Past Due		Past Due and Impaired	Total
		1 to 30 Days	31 to 120 Days		
Cash in banks	P48,525,220	P -	P -	P -	P48,525,220
Trade and other receivables	198,137,210	31,910,328	17,033,031	-	247,080,567
Refundable deposits	903,181	-	-	-	903,181
	<b>P247,565,611</b>	<b>P31,910,328</b>	<b>P17,033,031</b>	<b>P -</b>	<b>P286,508,968</b>

	December 31, 2019				
	Neither Past Due nor Impaired	Past Due		Past Due and Impaired	Total
		1 to 30 Days	31 to 120 Days		
Cash in banks	P44,113,185	P -	P -	P -	P44,113,185
Trade and other receivables	193,059,201	85,815,657	100,153,328	1,503,922	380,532,108
Refundable deposits	883,080	-	-	-	883,080
	<b>P238,055,466</b>	<b>P85,815,657</b>	<b>P100,153,328</b>	<b>P1,503,922</b>	<b>P425,528,373</b>

Based on the historical default rates, the Company believes that no impairment allowance is necessary in respect of trade receivables past due but not impaired because such accounts relate to customers that have good payment records with the Company. On the other hand, the Company believes that no impairment loss is necessary in respect of other receivables since they are neither past due nor impaired.

As at December 31, 2020 and 2019, the Company does not expect any counterparty, other than trade customers, to fail to meet its obligations, thus, related risk is deemed to be insignificant.

#### *Credit Risk Concentration*

The Company's exposure to credit risk arises from default of counterparty. Generally, the maximum credit risk exposure of receivables is its carrying amount without considering collaterals or credit enhancements, if any. The Company has no significant concentration of credit risk since the Company deals with a large number of customers. The Company does not execute any credit guarantee in favor of any counterparty.

### *Credit Quality*

In monitoring and controlling credit extended to counterparty, the Company adopts a comprehensive credit rating system based on financial and nonfinancial assessments of its customers. Financial factors being considered comprised of the financial standing of the customer while the nonfinancial aspects include but are not limited to the assessment of the customer's nature of business, management profile, industry background, payment habit and both present and potential business dealings with the Company.

As at December 31, 2020 and 2019, the cash in banks, trade receivables and refundable deposits which are neither past due nor impaired are categorized under high grade quality.

The credit quality of financial assets was determined as follows:

- a. Cash in Banks - the credit risk of this financial instrument is considered negligible since the counterparties are reputable entities with high quality external credit ratings based on the nature of the counterparty and the Company's internal rating system.
- b. Trade and Other Receivables - the credit quality is assessed as high grade since these have a high probability of collection and there is no history of default.
- c. Refundable Deposits - the credit quality is assessed to be as high grade since these security deposits are refundable at the end of the lease term which is expected from a reputable service provider.

### *Expected Credit Loss Assessment*

The Company allocates each exposure to a credit risk on data that are determined to be predictive of the risk of loss (including but not limited to external ratings, audited financial assets, management accounts and cash flow projections and available press information about customers) and applying expected credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default.

Exposures within each credit risk grade are assessed based on delinquency and actual credit loss experience. The Company considered both historical loss rate and forward-looking assumptions. The Company assessed that the impact of forward-looking assumption is immaterial.

### Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk by maintaining a balance between continuity of funding and flexibility in operation. Treasury controls and procedures are in place to ensure that sufficient cash is maintained to cover daily operational and working capital requirements, as well as capital expenditures and debt service payments. Management closely monitors the Company's future and contingent obligations and sets up required cash reserves as necessary in accordance with internal requirements.



The following are contractual maturities of financial liabilities:

	As at December 31, 2020			
	Carrying Amount	Contractual Cash Flows	1 Year or Less	More than 1 Year
<b>Financial Liabilities</b>				
Trade and other payables*	P146,851,076	P146,851,076	P146,851,076	P -
Loans payable**	42,056,023	42,108,045	42,108,045	-
	P188,907,099	P188,959,121	P188,959,121	P -

\*Excluding statutory obligations and accrued interest payable amounting to P564,542 and P56,023, respectively (see Notes 11 and 12).

\*\*Including accrued interest payable amounting to P56,023 and future interest payable with interest rates of 3.50% (see Note 12).

	As at December 31, 2019			
	Carrying Amount	Contractual Cash Flows	1 Year or Less	More than 1 Year
<b>Financial Liabilities</b>				
Trade and other payables*	P32,526,796	P32,526,796	P32,526,796	P -
Loans payable**	296,753,647	297,897,675	297,897,675	-
Lease liabilities	2,913,534	2,982,781	2,982,781	-
	P332,193,977	P333,407,252	P333,407,252	P -

\*Excluding statutory obligations and accrued interest payable amounting to P511,203 and P753,647, respectively (see Notes 11 and 12).

\*\*Including accrued interest payable amounting to P753,647 and future interest payable with interest rates of 4.50% to 6.00% (see Note 12).

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

#### Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and other market prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. The Company is subject to various risks, including foreign currency risk and interest rate risk.

#### *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 the market interest rates.

The Company's exposure to the risks for changes in market interest rates relates mainly to the Company's loans payable. The Company manages this risk by transacting its loans either with short-term maturities or with fixed interest rates. Accordingly, management believes that the Company does not have significant interest rate risk.

#### *Foreign Currency Exchange Risk*

Foreign currency exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's exposure to foreign currency risk relates primarily to the Company's foreign currency-denominated monetary assets and monetary liabilities. The currencies in which these transactions are primarily denominated are in United States dollar (USD), Singaporean dollar (SGD), British pound (GBP) and Euro (EUR).

The following table shows the Company's foreign currency-denominated monetary assets and monetary liabilities and their Philippine peso (PHP) equivalents as at December 31:

	December 31, 2020			
	USD	SGD	EUR	PHP Equivalent
<b>Foreign Currency - denominated Monetary Asset</b>				
Cash in banks	9,019	-	-	433,215
<b>Foreign Currency - denominated Monetary Liability</b>				
Trade payables	19,130	-	1,713	100,545
<b>Net Foreign Currency - denominated Monetary Asset (Liability)</b>	<b>(10,111)</b>	<b>-</b>	<b>(1,713)</b>	<b>332,670</b>

	December 31, 2019			
	USD	SGD	EUR	PHP Equivalent
<b>Foreign Currency - denominated Monetary Asset</b>				
Cash in banks	151,494	-	-	7,687,414
<b>Foreign Currency - denominated Monetary Liability</b>				
Trade payables	606	34	2,935	135,891
<b>Net Foreign Currency - denominated Monetary Asset (Liability)</b>	<b>150,888</b>	<b>(34)</b>	<b>(2,935)</b>	<b>7,551,523</b>

In translating the foreign currency-denominated monetary assets and monetary liabilities into Philippine peso amounts, the significant exchange rates applied are as follows:

	2020	2019
USD	48.00	50.76
SGD	36.10	37.50
EUR	58.69	56.36

The following table demonstrates sensitivity of cash flows due to changes in foreign exchange rates with all variables held constant.

	December 31, 2020	
	Percentage Decrease in Foreign Exchange Rates	Increase (Decrease) in Income before Income Tax
USD	(5%)	P16,986
SGD	(4%)	-
EUR	4%	2,815

	December 31, 2019	
	Percentage Decrease in Foreign Exchange Rates	Increase (Decrease) in Income before Income Tax
USD	(3%)	(P267,519)
SGD	(3%)	-
EUR	(7%)	10,834

Changes in foreign exchange rates are based on the average of the banks' forecasted closing exchange rates during the first quarter of the following calendar year. A movement in the opposite direction would increase/decrease income before income tax by the same amount, on the basis that all other variables remains constant.

#### Capital Risk Management

The Company's objectives, when managing capital, are to increase the value of stockholders' investment and maintain high growth by applying free cash flows to selective investments that would further the Company's worth. The Company sets strategies with the objective of establishing a versatile and resourceful financial management and capital structure.

The Company defines capital as paid-in capital stock, retained earnings and accumulated remeasurements on retirement benefits.

There were no changes in the Company's approach to capital management during the year.

The Chief Financial Officer has the overall responsibility for monitoring of capital in proportion to risk. Profiles for capital ratios are set in the light of changes in the Company's external environment and the risks underlying the Company's business operations and industry.

The Company is not subject to externally-imposed capital requirements.

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## **20. Fair Values of Financial Instruments**

#### *Cash, Trade and Other Receivables and Trade and Other Payables*

The carrying amounts of the Company's cash, trade and other receivables and trade and other payables (excluding statutory obligations and Output VAT) approximate their fair values due to the short-term maturities of these financial instruments.

#### *Refundable Deposits*

In the case of security deposits, the difference between the carrying amounts and fair values is considered immaterial by management.

#### *Loans Payable*

The estimated fair value of loans is based on the present value of expected future cash flows using the applicable market rates for similar types of loans at reporting date. The difference between the carrying amount and fair value of loans payable is considered immaterial by management.

#### *Lease Liabilities*

The fair value of lease liabilities was estimated as the present value of all future cash flows discounted using the incremental borrowing rate. The carrying amounts approximate their fair values because the difference between the interest rates of these instruments and the prevailing market rates for similar instruments is not considered significant.

As at December 31, 2020 and 2019, no financial asset or financial liability was recognized at fair value. The Company has no other assets or liabilities with recurring and non-recurring fair value measurements. Thus, disclosure on inputs using a three-level fair value hierarchy is not necessary

## 21. Reconciliation Between the Opening and Closing Balances for Liabilities Arising from Financing Activities

The reconciliation of movements of liabilities to cash flows arising from financing activities in 2020 and 2019 are as follows:

	December 31, 2020		Total
	Loans Payable	Accrued Interest	
Balances at beginning of year	P296,000,000	P753,647	P296,753,647
Proceeds from loans payable	97,000,000	-	97,000,000
Payment of principal	(351,000,000)	-	(351,000,000)
Interest expense	-	5,842,259	5,842,259
Interest paid	-	(6,539,883)	(6,539,883)
Balances at end of year	P42,000,000	P56,023	42,056,023

	December 31, 2019			Total
	Loans Payable	Accrued Interest	Dividends Payable	
Balances at beginning of year	P -	P -	P75,000,000	P75,000,000
Proceeds from loans payable	394,000,000	-	-	394,000,000
Payment of principal	(98,000,000)	-	-	(98,000,000)
Interest expense	-	14,569,549	-	14,569,549
Interest paid	-	(13,815,902)	-	(13,815,902)
Payment of dividends	-	-	(75,000,000)	(75,000,000)
Balances at end of year	P296,000,000	P753,647	P -	P296,753,647

## 22. Events after the Reporting Date

On March 26, 2021, the President of the Philippines has approved the Corporate Recovery and Tax Incentives for Enterprises or the CREATE Act, with nine (9) provisions vetoed by the President. Below are the salient features of the Act that are relevant to the Company:

- Corporate income tax rate is reduced from 30% to 20% for domestic corporations with net taxable income not exceeding P5 million and with total assets not exceeding P100 million. All other domestic corporations and resident foreign corporations will be subject to 25% income tax. Said reductions are effective July 1, 2020.
- Minimum corporate income tax (MCIT) rate is reduced from 2% to 1% effective July 1, 2020 to June 30, 2023.
- The imposition of improperly accumulated earnings tax has been repealed.

On April 8, 2021, the Bureau of Internal Revenue (BIR) issued the following implementing revenue regulations that are effective immediately upon publication:

- BIR RR No. 2-2021, *Amending Certain Provisions of Revenue Regulations No. 2-98, As Amended, to Implement the Amendments Introduced by Republic Act No. 11534, or the "Corporate Recovery and Tax Incentives for Enterprises Act" (CREATE), to the National Revenue Code of 1997, as Amended, Relative to the Final Tax on Certain Passive Income;*
- BIR RR No. 3-2021, *Rules and Regulations Implementing Section 3 of Republic Act (RA). No. 11534, Otherwise Known as the "Corporate Recovery and Tax Incentives for Enterprises Act" or "CREATE", Amending Section 20 of the National Internal Revenue Code of 1997, As Amended;*

- BIR RR No. 4-2021, *Implementing the Provisions on Value-Added Tax (VAT) and Percentage Tax Under Republic Act (RA) No. 11534, Otherwise Known as the "Corporate Recovery and Tax Incentives for Enterprises Act" (CREATE) Which Further Amended the National Revenue Code of 1997, as Amended, as Implemented by Revenue Regulations (RR) No. 16-2005 (Consolidated Value-Added Tax Regulations of 2005), As Amended; and*
- BIR RR No. 5-2021, *Implementing the New Income Tax Rates on the Regular Income of Corporations, on Certain Passive Incomes, Including Additional Allowable Deductions from Gross Income of Persons Engaged in Business or Practice of Profession Pursuant to Republic Act (RA) No. 11534 or the "Corporate Recovery and Tax Incentives for Enterprises Act" (CREATE), Which Further Amended the National Revenue Code (NIRC) of 1997.*

The enactment of the CREATE Law is a non-adjusting subsequent event thus, the current and deferred income taxes as at December 31, 2020 are measured using the applicable income tax rates as at December 31, 2020.

Further, the BIR has issued its Revenue Regulations No. 5-2021 to promulgate the implementation of the new income tax rates on the regular income of corporations, on certain passive incomes and additional allowable deductions of persons engaged in business or practice of profession as provided for in CREATE Law. The corporate income tax of the Company will be lowered from 30% to 25% for large corporations on which the Company would qualify, effective July 1, 2020.

Presented below is the estimated effect of changes in tax rates under the CREATE Act:

	<b>As at December 31, 2020</b>	<b>Effect of changes in tax rates</b>	<b>Amounts based on the reduced tax rates</b>
<i>Statements of Comprehensive Income</i>			
Provision for income tax - current	P29,308,056	(P2,445,478)	P26,862,578
Provision for income tax - deferred	587,258	103,606	690,864
<i>Statements of Financial Position</i>			
Deferred tax asset	P208,531	(P34,755)	P173,776
Income tax payable	(17,354,611)	2,445,478	(14,909,133)
Accumulated remeasurements on retirement benefits	(963,913)	(68,851)	(1,032,764)

**23. Supplementary Information Required by the Bureau of Internal Revenue (BIR)  
Based on Revenue Regulations No.15-2010**

In addition to the disclosures mandated under PFRS, and such other standards and/or conventions as may be adopted, companies are required by the BIR to provide in the notes to financial statements, certain supplementary information for the taxable year. The amounts relating to such supplementary information may not necessarily be the same with those amounts disclosed in the financial statements which were prepared in accordance with PFRS. The following are the tax supplementary information required for the taxable year ended December 31, 2020:

**a. VAT**

Output VAT	P96,881,618
Basis of the Output VAT:	
Vatable sales	P807,346,813
Zero-rated sales	32,182,582
Exempt sales	11,320
Total sales	P839,540,715
Input VAT	
Beginning of the year	P7,143,422
Current year transactions:	
a. Domestic purchases of goods other than capital goods	49,219,703
b. Importations other than capital goods	67,902,599
c. Others	4,075,839
Deductions from input tax and other adjustments	(29,328)
Total allowable input VAT	P128,312,235
Total Vat payable (refundable) during the year	(P31,430,617)
Less: VAT payments during the year	(172,615)
Net VAT payable (refundable) at the end of the year	(P31,603,232)

**b. Customs Duties**

Landed cost of imports	P565,854,992
Customs duties paid or accrued	39,239,950
	P605,094,942

**c. Excise Taxes**

Imported excisable items	
a. Spirits	P150,644,252
b. Wines	6,118,118
	P156,762,370

**d. Documentary Stamp Tax**

On loan instruments	P700,582
On others	268,144
	P968,726

**e. Withholding Taxes**

Tax on compensation and benefits	P695,984
Expanded withholding taxes	1,891,297
	<b>P2,587,281</b>

**f. All Other Taxes (Local and National)**

<i>Other taxes paid during the year included under "Taxes and licenses" account under Operating Expenses</i>	
License and permit fees	P4,219,656
Others	72,258
	<b>P4,291,914</b>

**g. Tax Cases**

On January 22, 2020 and September 18, 2020, the Company received Letters of Authority from the BIR to examine the Company's books of accounts and other accounting records for the periods January 1, 2019 to June 30, 2019 and January 1, 2019 to December 31, 2019, respectively.

In November 2020, the Company paid the total deficiency taxes, including penalties and interest, in relation to these assessments amounting to P3,504,799.

As at December 31, 2020, the Company has no pending nor outstanding tax cases.

Information on tariff fee paid or accrued are not applicable since the Company did not enter into transaction which will result to payment or accrual of such taxes.





**STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR ANNUAL INCOME TAX RETURN**

The Management of **Premier Wine and Spirits, Inc.** ("the Company") is responsible for all information and representations contained in the Annual Income Tax Return for the year ended December 31, 2020. Management is likewise responsible for all information and representations contained in the financial statements accompanying the Annual Income Tax Return covering the same reporting period. Furthermore, the Management is responsible for all information and representations contained in all the other tax returns filed for the reporting period, including, but not limited, to the value added tax returns, withholding tax returns, documentary stamp tax returns, and any and all other tax returns.

In this regard, the Management affirms that the attached audited financial statements for the year ended December 31, 2020 and the accompanying Annual Income Tax Return are in accordance with the books and records of **Premier Wine and Spirits, Inc.**, complete and correct in all material respects. Management likewise affirms that:

- (a) the Annual Income Tax Return has been prepared in accordance with the provisions of the National Internal Revenue Code, as amended, and pertinent tax regulations and other issuances of the Department of Finance and the Bureau of Internal Revenue;
- (b) any disparity of figures in the submitted reports arising from the preparation of financial statements pursuant to financial accounting standards and the preparation of the income tax return pursuant to tax accounting rules has been reported as reconciling items and maintained in the company's books and records in accordance with the requirements of Revenue Regulations No. 8-2007 and other relevant issuances;
- (c) **Premier Wine and Spirits, Inc.** has filed all applicable tax returns, reports and statements required to be filed under Philippine tax laws for the reporting period, and all taxes and other impositions shown thereon to be due and payable have been paid for the reporting period, except those contested in good faith.

JOSE PAULINO SANTAMARINA  
Chairman of the Board/President

ROBIN DERRICK CO CHUA  
Managing Director

EVELYN B. BINANITAN  
Treasurer

Signed this \_\_\_\_\_ day of \_\_\_\_\_ 2021



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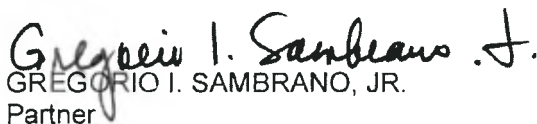
**REPORT OF INDEPENDENT AUDITORS  
TO ACCOMPANY FINANCIAL STATEMENTS FOR FILING  
WITH THE BUREAU OF INTERNAL REVENUE**

The Board of Directors and Stockholders  
**Premier Wine and Spirits, Inc.**  
Gate 1, Tabacalera Compound  
900 D. Romualdez Street  
Paco, Manila

We have audited the accompanying financial statements of Premier Wine and Spirits, Inc. (the "Company"), a wholly-owned subsidiary of Cosco Capital, Inc., for the year ended December 31, 2020, on which we have rendered our report dated April 23, 2021.

In compliance with Revenue Regulations V-20, we are stating that no partner of our Firm is related by consanguinity or affinity to the president, manager or principal stockholders of the Company.

**R.G. MANABAT & CO.**

  
GREGORIO I. SAMBRANO, JR.  
Partner

CPA License No. 088825  
SEC Accreditation No. 1548-AR-1, Group A, valid until December 17, 2021  
Tax Identification No. 152-885-329  
BIR Accreditation No. 08-001987-36-2018  
Issued September 20, 2018; valid until September 19, 2021  
PTR No. MKT 8533918  
Issued January 4, 2021 at Makati City

April 23, 2021  
Makati City, Metro Manila

Firm Regulatory Registration & Accreditation  
PRC-BOA Registration No. 0003, valid until November 21, 2023  
SEC Accreditation No. 0003-SEC, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by SEC Accreditation No. 0004-FR-5)  
IC Accreditation No. 0003-IC, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by IC Circular Letter (CL) No. 2019-39, Transition clause)  
BSP Accreditation No. 0003-BSP, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by BSP Monetary Board Resolution No. 2181, Transition clause)



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## REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders  
**Premier Wine and Spirits, Inc.**  
Gate 1, Tabacalera Compound  
900 D. Romualdez Street  
Paco, Manila

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of Premier Wine and Spirits, Inc. (the "Company"), a wholly-owned subsidiary of Cosco Capital, Inc., which comprise the statements of financial position as at December 31, 2020 and 2019, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended 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 *Auditors' Responsibilities for the Audits 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 the 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.

#### Firm Regulatory Registration & Accreditation:

PRC-BOA Registration No. 0003, valid until November 21, 2023

SEC Accreditation No. 0003-SEC, Group A, valid for five (5) years covering the audit of 2020 to 2024

financial statements (2019 financial statements are covered by SEC Accreditation No. 0004-FR-5)

IC Accreditation No. 0003-IC, Group A, valid for five (5) years covering the audit of 2020 to 2024

financial statements (2019 financial statements are covered by IC Circular Letter (CL) No. 2019-39, Transition clause)

BSP Accreditation No. 0003-BSP, Group A, valid for five (5) years covering the audit of 2020 to 2024

financial statements (2019 financial statements are covered by BSP Monetary Board Resolution No. 2161, Transition clause)



### *Responsibilities of Management and the Board of Directors for the Financial Statements*

Management is responsible for the preparation and fair presentation of the 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.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

### *Auditors' Responsibilities for the Audits of the 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 auditors' 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, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSA, we exercise professional judgment and maintain professional skepticism throughout the audits. 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 auditors' 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 auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.



- 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 the Board of Directors 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.

**Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010 of the Bureau of Internal Revenue**

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 26 to financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**R.G. MANABAT & CO.**

  
GREGORIO I. SAMBRANO, JR.  
Partner

CPA License No. 088825

SEC Accreditation No. 1548-AR-1, Group A, valid until December 17, 2021

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BIR Accreditation No. 08-001987-36-2018

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PTR No. MKT 8533918

Issued January 4, 2021 at Makati City

April 23, 2021  
Makati City, Metro Manila



**PREMIER WINE AND SPIRITS, INC.**  
**(A Wholly-owned Subsidiary of Cosco Capital, Inc.)**

**STATEMENTS OF FINANCIAL POSITION**

		December 31	
	Note	2020	2019
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	5, 22, 23	P308,361,682	P229,950,511
Trade and other receivables - net	6, 12, 22, 23	311,200,988	498,147,551
Inventories	7, 15	673,735,428	599,727,310
Prepaid expenses and other current assets	8	29,847,545	247,347,287
<b>Total Current Assets</b>		<b>1,323,145,643</b>	<b>1,575,172,659</b>
<b>Noncurrent Assets</b>			
Property and equipment - net	9	12,653,123	6,540,902
Right-of-use assets - net	19	85,718,170	4,851,092
Deferred income tax assets - net	20	4,554,006	3,705,373
Investment in an associate	10	93,360,805	118,193,553
Refundable deposits	19, 22, 23	5,793,414	3,203,153
<b>Total Noncurrent Assets</b>		<b>202,079,518</b>	<b>136,494,073</b>
		<b>P1,525,225,161</b>	<b>P1,711,666,732</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Trade and other payables	11, 12, 22, 23	P112,899,654	P135,073,087
Due to related parties	12, 22, 24, 24	192,700,000	192,851,618
Loan payable	13, 22, 24, 24	-	313,000,000
Dividends payable	14, 22, 23	100,000,000	100,000,000
Lease liabilities - current portion	19, 22, 24	29,032,296	5,424,764
Income tax payable		15,399,144	212,594
Provisions	21	11,974,716	13,901,018
<b>Total Current Liabilities</b>		<b>462,005,810</b>	<b>760,463,081</b>
<b>Noncurrent Liabilities</b>			
Lease liabilities - net of current portion	19, 22, 23, 24	68,683,282	1,268,352
Retirement benefits liability	18	11,564,165	9,203,625
<b>Total Noncurrent Liabilities</b>		<b>80,247,447</b>	<b>10,471,977</b>
<b>Total Liabilities</b>		<b>542,253,257</b>	<b>770,935,058</b>
<b>Equity</b>			
Capital stock	14	150,000,000	150,000,000
Additional paid-in capital	14	1,500,000	1,500,000
Retained earnings	14	827,046,053	784,310,918
Accumulated remeasurements on retirement benefits		4,425,851	4,920,756
<b>Total Equity</b>		<b>982,971,904</b>	<b>940,731,674</b>
		<b>P1,525,225,161</b>	<b>P1,711,666,732</b>

See Notes to Financial Statements.

**PREMIER WINE AND SPIRITS, INC.**  
**(A Wholly-owned Subsidiary of Cosco Capital, Inc.)**

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**STATEMENTS OF COMPREHENSIVE INCOME**

		Years Ended December 31	
	<i>Note</i>	2020	2019
NET SALES	12	P1,221,016,898	P1,603,043,627
COST OF GOODS SOLD	15	985,374,247	1,348,453,996
GROSS PROFIT		235,642,651	254,589,631
OPERATING EXPENSES	16	127,052,110	158,406,307
INCOME FROM OPERATIONS		108,590,541	96,183,324
SHARE IN NET LOSSES ON INVESTMENT IN AN ASSOCIATE	10	(24,832,747)	(8,762,851)
OTHER CHARGES - Net	17	(10,992,830)	(20,573,757)
INCOME BEFORE INCOME TAX		72,764,964	66,846,716
PROVISION FOR INCOME TAX	20	30,029,829	19,807,577
NET INCOME		42,735,135	47,039,139
<b>OTHER COMPREHENSIVE LOSS</b>			
<i>Item that will never be reclassified to profit or loss in subsequent periods</i>			
Remeasurement losses on retirement benefits	18	(707,007)	(1,510,929)
Deferred income tax benefit	20	212,102	453,278
		(494,905)	(1,057,651)
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>P42,240,230</b>	<b>P45,981,488</b>

*See Notes to Financial Statements.*



**PREMIER WINE AND SPIRITS, INC.**  
**(A Wholly-owned Subsidiary of Cosco Capital, Inc.)**  
**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

	Capital Stock (Note 14)	Additional Paid-in Capital (Note 14)	Accumulated Remeasurements on Retirement Benefits	Retained Earnings (Note 14)	Total Equity
Balances at January 1, 2019	P150,000,000	P1,500,000	P5,978,407	P737,271,779	P894,750,186
Net income for the year	-	-	-	47,039,139	47,039,139
Other comprehensive loss for the year	-	-	(1,057,651)	-	(1,057,651)
Total comprehensive income (loss) for the year	-	-	(1,057,651)	47,039,139	45,981,488
Balances at December 31, 2019	150,000,000	1,500,000	4,920,756	784,310,918	940,731,674
Net income for the year	-	-	-	42,735,135	42,735,135
Other comprehensive loss for the year	-	-	(494,905)	-	(494,905)
Total comprehensive income (loss) for the year	-	-	(494,905)	42,735,135	42,240,230
<b>Balances at December 31, 2020</b>	<b>P150,000,000</b>	<b>P1,500,000</b>	<b>P4,425,851</b>	<b>P827,046,053</b>	<b>P982,971,904</b>

*See Notes to Financial Statements.*

**PREMIER WINE AND SPIRITS, INC.**  
**(A Wholly-owned Subsidiary of Cosco Capital, Inc.)**

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**STATEMENTS OF CASH FLOWS**

		Years Ended December 31	
	Note	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax		P72,764,964	P66,846,716
Adjustments for:			
Share in net losses on investment in an associate	10	24,832,747	8,762,851
Depreciation and amortization	9, 16, 19	18,816,081	12,820,052
Interest expense	12, 13, 17, 19, 24	13,331,760	24,951,433
Interest income	5, 17	(2,141,269)	(1,398,227)
Retirement benefits costs	18	1,653,533	1,130,140
Unrealized foreign exchange gains		(82,883)	(1,315,329)
Operating income before working capital changes		129,174,933	111,797,636
Decrease (increase) in:			
Trade and other receivables - net		187,059,166	298,607,738
Inventories		(74,008,118)	(34,807,202)
Prepaid expenses and other current assets		217,499,742	127,393,886
Refundable deposits		(2,590,261)	(395,299)
Increase in trade and other payables		(23,923,152)	(63,693,165)
Cash generated from operations		433,212,310	438,903,594
Income taxes paid		(17,406,112)	(24,553,765)
Interest received	5, 17	2,141,269	1,398,227
Net cash from operating activities		417,947,467	415,748,056
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions to property and equipment	9	(10,168,024)	(1,813,655)
Acquisition of shares of stock of an associate	10	-	(126,956,404)
Cash used in investing activities		(10,168,024)	(128,770,059)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Payments of loan payable:			
Principal amount	13, 24	(313,000,000)	(170,000,000)
Interest expense	13, 24	(10,054,377)	(23,302,000)
Payments of lease liabilities:			
Principal amount	19, 24	(5,928,322)	(10,833,018)
Interest expense	19, 24	(233,955)	(587,141)
Payments of:			
Advances from related parties	12, 24	(151,618)	(104,848,382)
Interest expense	24	-	(4,377,891)
Proceeds from availment of loan	13, 24	-	126,000,000
Net cash used in financing activities		(329,368,272)	(187,948,432)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>78,411,171</b>	<b>99,029,565</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<b>229,950,511</b>	<b>130,920,946</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>5</b>	<b>P308,361,682</b>	<b>P229,950,511</b>

See Notes to Financial Statements

**PREMIER WINE AND SPIRITS, INC.**  
**(A Wholly-owned Subsidiary of Cosco Capital, Inc.)**

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**NOTES TO FINANCIAL STATEMENTS**

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**1. Reporting Entity**

Premier Wine and Spirits, Inc. (the "Company") was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on June 19, 1996. The Company's primary purpose is to engage in the business of buying, selling, distribution and marketing on a wholesale basis, any and all kinds of beverages, spirits and liquors and to deal in any materials, articles or things required in connection with or incidental to the importation, exportation, manufacturing, marketing or distribution of such products.

The Company is a wholly-owned subsidiary of Cosco Capital, Inc. ("Cosco" or "Parent Company"), a company incorporated in the Philippines. Cosco's shares of stock are listed for trading at the Philippine Stock Exchange (PSE).

The Company's registered office address is at Gate 1, Tabacalera Compound, 900 D. Romualdez Street, Paco, Manila.

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**2. Basis of Preparation**

Statement of Compliance

The financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). PFRS which are issued by the Philippine Financial Reporting Standards Council (FRSC), consist of PFRS, Philippine Accounting Standards (PAS), and Philippine Interpretations based on the International Financial Reporting Interpretations Committee (IFRIC) interpretations.

Basis of Measurement

The financial statements have been prepared on the historical cost basis of accounting except for retirement benefits liability which is measured at the present value of the defined benefits obligation.

Functional and Presentation Currency

The financial statements are measured using the currency of the primary economic environment in which the Company operates. The financial statements are presented in Philippine Peso, which is also the Company's functional currency. All amounts are rounded to the nearest Peso, except when otherwise indicated.

Authorization for Issuance of the Financial Statements

The accompanying financial statements of the Company as at and for the years ended December 31, 2020 and 2019 were approved and authorized for issue by the Company's Board of Directors (BOD) on April 21, 2021.

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### 3. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in these financial statements, except for the changes in accounting policies as explained below.

#### Adoption of Amendments to Standards

The Company has adopted the following amendments to standards starting January 1, 2020 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption of these amendments to standards did not have any significant impact on the Company's financial statements. These are as follows:

- *Amendments to References to Conceptual Framework in PFRS Standards* sets out amendments to PFRS Standards, their accompanying documents and PFRS practice statements to reflect the issuance of the revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework). The 2018 Conceptual Framework includes a new chapter on measurement, guidance on reporting financial performance, improved definitions of an asset and a liability, and guidance supporting these definitions, and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Some Standards, their accompanying documents and PFRS practice statements contain references to, or quotations from, the International Accounting Standards Committee (IASC)'s Framework for the Preparation and Presentation of Financial Statements adopted by the International Accounting Standards Board (IASB) in 2001 or the Conceptual Framework for Financial Reporting issued in 2010. The amendments update some of those references and quotations so that they refer to the 2018 Conceptual Framework, and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

- *PAS 1, Presentation of Financial Statements* and *PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Material (Amendments)* refine the definition of material. The amended definition of material states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify the definition of material and its application by: (a) raising the threshold at which information becomes material by replacing the term "could influence" with "could reasonably be expected to influence"; (b) including the concept of "obscuring information" alongside the concept of "omitting" and "misstating" information in the definition; (c) clarifying that the users to which the definition refers are the primary users of general purpose financial statements referred to in the Conceptual Framework; (d) clarifying the explanatory paragraphs accompanying the definition; and (e) aligning the wording of the definition of material across PFRS Standards and other publications.

The amendments are expected to help entities make better materiality judgements without substantively changing existing requirements.

### Cash and Cash Equivalents

Cash includes cash on hand and in banks, which is subject to insignificant risk of changes in value and is used by the Company in managing its short-term commitments. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from the date of acquisition and are subject to an insignificant risk of change in value. Cash in banks and cash equivalents earn interest at the respective prevailing bank rates.

### Financial Instruments

#### *Date of Recognition*

The Company recognizes a financial asset or a financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases and sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

#### *Initial Recognition of Financial Instruments*

Financial instruments are recognized initially at fair value. The initial measurement of financial instruments, except for those financial assets and financial liabilities classified or designated at fair value through profit or loss (FVTPL), includes transaction costs.

#### *Classification and Measurement of Financial Instruments*

On initial recognition, the Company classifies its financial assets in the following categories: measured at amortized cost, financial assets at FVTPL and financial assets at fair value through other comprehensive income (FVOCI). The classification depends on the business model for managing the financial assets and the contractual terms of its cash flows.

The Company classifies its financial liabilities as either financial liabilities at amortized cost or financial liabilities at FVTPL. The Company classifies all financial liabilities at amortized cost, except for: (a) financial liabilities designated by the Company at initial recognition as at FVTPL, when doing so results in more relevant information; (b) financial liabilities that arise when the transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies; (c) contingent consideration recognized by the Company in a business combination which shall subsequently be measured at fair value with changes recognized in profit or loss; and (d) financial guarantee contracts and commitments to provide a loan at a below market interest rate which are initially measured at fair value and subsequently at higher of amortized amount and amount of loss allowance.



#### *Business Model Assessment*

The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes: (a) the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether the management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets; (b) how the performance of the portfolio is evaluated and reported to the Company's management; (c) the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; (d) how managers of the business are compensated - e.g., whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and (e) the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

#### *Solely Payments of Principal and Interest Assessment*

Principal is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers contingent events that would change the amount or timing of cash flows, terms that may adjust the contractual coupon rate, including variable-rate features, prepayment and extension features, and terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse features).

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

The Company has no financial assets classified as financial assets at FVTPL and FVOCI as at December 31, 2020 and 2019.

#### *Financial Assets at Amortized Cost*

A financial asset is measured at amortized cost if it is held within a business model whose objective is to hold assets to collect contractual cash flows, its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, and it is not designated as at FVTPL.

Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

Included in this category are the Company's cash in banks, cash equivalents, trade and other receivables and refundable deposits.

#### *Financial Liabilities at Amortized Cost*

This category pertains to financial liabilities that are not held for trading or designated as at FVTPL upon inception of the liability. These include liabilities arising from operations or borrowings. The financial liabilities are recognized initially at fair value and subsequently carried at amortized cost, taking into account the impact of applying the effective interest rate method of amortization for any related premium, discount and any directly attributable transaction costs. These financial liabilities are included in current liabilities if maturity is within twelve months from reporting date. Otherwise, these are classified as noncurrent liabilities.

This category includes the Company's trade and other payables (excluding payables to government agencies), due to related parties, dividends payable, loan payable and lease liabilities.

#### Impairment of Financial Assets.

The Company measures loss allowances at an amount equal to lifetime expected credit losses (ECLs), except for debt securities that are determined to have low credit risk at the reporting date and other debt securities and bank balances for which credit risk has not increased significantly since initial recognition, which are measured at 12-month ECLs.

Loss allowances for trade and other receivables is always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 360 days past due. The Company considers a financial asset to be in default when the customer is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security (if any is held) or the financial asset is more than 360 days past due on any material credit obligation to the Company.

When determining if there has been a significant increase in credit risk, the Company considers reasonable and supportable information that is available without undue cost or effort and that is relevant for the particular financial instrument being assessed such as, but not limited to, the following factors:

- actual or expected external and internal credit rating downgrade;
- existing or forecasted adverse changes in business, financial or economic conditions; and
- actual or expected significant adverse changes in the operating results of the borrower.

The Company has assessed that the ECL on other financial assets at amortized cost is not material because the transactions with respect to these financial assets were entered into by the Company only with reputable banks and companies with good credit standing and relatively low risk of defaults. Accordingly, no additional provision for ECL on other financial assets at amortized cost was recognized in 2020 and 2019.



Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. The 12-month ECLs are a portion of lifetime ECLs that represents the ECLs resulting from default events on the financial instrument that are possible within 12 months after the reporting date or a shorter period if the expected life of the instrument is less than 12 months.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

ECLs are probability weighted-estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Company assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes significant financial difficulty of the borrower or issuer, a breach of contract such as default, the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise, when it is probable that the borrower will enter bankruptcy or other financial reorganization, or the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

Financial assets are written off when there is no reasonable expectation of recovery. The Company categorizes financial assets recorded at amortized cost for write off when a debtor fails to make payments or when it is probable that the receivable will not be collected. Where amortized cost financial assets have been written off, the Company continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognized in profit or loss.

#### Derecognition of Financial Assets and Financial Liabilities

##### *Financial Assets*

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

- the rights to receive cash flows from the asset have expired;
- the Company retains the rights 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 rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a "pass-through" arrangement and has neither transferred nor retained substantially all the risks and rewards 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 is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to pay.

#### *Financial Liabilities*

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 Financial Instruments

Financial assets and financial liabilities are offset and the net amount is 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. This is not generally the case with master netting agreements, and the related assets and liabilities are presented at gross in the statement of financial position.

#### Fair Value Measurement

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 measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to the Company.

The fair value of an asset or a liability is measured using the assumptions that the market participants would use when pricing the asset or liability, assuming that the market participants act in their economic best interest.

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 statement 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 markets 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 statement on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by reassessing 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.

As at December 31, 2020 and 2019, no financial asset or financial liability was recognized at fair value. Thus, disclosure on inputs using a three-level fair value hierarchy is not necessary. The Company has no other assets or liabilities with recurring and non-recurring fair value measurements.

#### Inventories

Inventories, which consist of spirits, wines and specialty beverages, are valued at the lower of cost and net realizable value (NRV). Cost is comprised of purchase price, expenditure incurred in acquiring the inventories and other costs incurred in bringing them to their present location and condition. Cost is determined using the first-in, first-out method.

NRV represents the estimated selling price in the ordinary course of business less costs to be incurred in marketing, selling and distribution. In determining the NRV, the Company considers any adjustment necessary to write-down inventories to NRV for slow-moving and near expiry products based on physical inspection and management evaluation.

#### Prepaid Expenses and Other Current Assets

##### *Prepaid Expenses and Advances to Suppliers*

Prepaid expenses represent expenses not yet incurred but already paid in cash. Prepaid expenses are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are charged to profit or loss as these are consumed in operations or expire with the passage of time.

Prepaid expenses are classified in the statement of financial position as current asset when the cost of goods or services related to the prepayment are expected to be incurred within one (1) year from the reporting date. Otherwise, prepayments are classified as noncurrent assets.

Advances to suppliers are measured at the amount of initial down payment for purchases of inventories and are applied against future progress billings. These are classified as current assets in the statement of financial position.

##### *Value-added Tax (VAT)*

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

- where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of VAT included.

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of "Prepaid expenses and other current assets" or "Trade and other payables" in the statement of financial position, respectively.

#### Investment in an Associate

An associate is an entity over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Significant influence is defined as the power to participate in the financial and operating policy decisions of the entity but not control or joint control over those policies. An associate is accounted for using the equity method. Investment in an associate is initially recognized at cost, which includes transaction costs. Subsequent to initial recognition, the financial statements include the Company's share of the profit or loss and OCI of associate, until the date on which significant influence ceases. Unrealized gains arising from transactions with associate are eliminated to the extent of the Company's interest in the associate. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

#### Property and Equipment

Property and equipment is stated at cost less accumulated depreciation and amortization, and any impairment in value. The initial cost of property and equipment consists of its purchase price, including any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to profit or loss in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of the item of property and equipment.

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

	Number of Years
Transportation and equipment	3
Furniture and fixtures	3
Leasehold improvements	5 or lease term, whichever is shorter
Machinery and equipment	3
Office equipment	3

Depreciation or amortization of an item of property and equipment begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation or amortization ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, and the date the asset is derecognized.

The estimated useful lives and depreciation and amortization method are reviewed periodically to ensure that the periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation is recognized in profit or loss. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and any impairment in value are removed from the accounts and any resulting gain or loss is recognized in profit or loss.

#### Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. The capitalization of borrowing costs: (i) commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred; (ii) is suspended during the extended periods in which active development, improvement and construction of the assets are interrupted; and (iii) ceases when substantially all the activities necessary to prepare the assets are completed. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds.

Other borrowing costs are recognized as expense in the period in which they are incurred.

#### Impairment of Noncurrent Nonfinancial Assets

The Company assesses at end of each reporting period whether there is an indication that its noncurrent nonfinancial assets which consists of investment in an associate, right-of-use assets and property and equipment may be impaired. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets or the cash generating unit (CGU) are written down to their recoverable amounts. The recoverable amount of the noncurrent nonfinancial assets is the greater of fair value less cost to sell and value-in-use. The fair value less cost to sell is the price that would be received to sell an asset in an orderly transaction between market participants less cost to sell. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs. Impairment losses, if any, are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount on a systemic basis over its remaining useful life.

#### Capital Stock

Ordinary or common shares are classified as equity. The proceeds from the issuance of ordinary or common shares are presented in equity as capital stock to the extent of the par value of the issued and outstanding shares and any excess of the proceeds over the par value of the shares issued, less any incremental costs directly attributable to the issuance, net of tax, is presented in equity as additional paid-in capital.

#### Retained Earnings

Retained earnings represent the cumulative balance of periodic net income or loss, dividend contributions, correction of prior year errors, effect of changes in accounting policy and other capital adjustments.

Appropriated retained earnings are accumulated earnings set aside by the BOD for a specific purpose. Unappropriated retained earnings are the residual amount of retained earnings after appropriation.

#### Revenue Recognition

Revenue from contracts with customers is recognized upon transfer of goods to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods.

The following specific recognition criteria must also be met before revenue is recognized:

#### *Sale of Spirits, Wines and Specialty Beverages*

Revenue from sale of spirits, wines and specialty beverages is recognized at the point in time when control of the asset is transferred to the customer, generally upon delivery. Revenue is recognized net of variable considerations, i.e. discounts, rebates, listing and slotting fees/display allowances and certain payments to customers after the initial sale of goods as reduction to revenue, unless it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Invoices are generated at the time of delivery and are usually due within 30 to 60 days.

Receivable is recognized by the Company when the goods are delivered to the customer as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of the time is required before payment is due.

#### *Interest Income*

Interest income is recognized in profit or loss as it accrues, taking into account the effective yield on the asset.

#### Cost and Expense Recognition

##### *Cost of Goods Sold*

Cost of goods sold is recognized when goods are delivered to the buyer. Expenses are recognized upon utilization of services or at the date they are incurred.

##### *Operating Expenses*

Operating expenses are costs incurred to sell or distribute the goods and to administer the business. It includes documentation processing and delivery, among others. Operating expenses are expensed as incurred.

#### 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 year in accordance with PFRS.

#### Employee Benefits

##### *Short-term Employee Benefits*

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of the past service provided by the employee and the obligation can be estimated reliably.



#### *Retirement Benefits Liability and Costs*

The Company has an unfunded, non-contributory defined benefits retirement plan covering substantially all permanent, regular and full-time employees. The Company's obligation in respect of the defined benefits is calculated by estimating the amount of the future benefits that employees have earned in the current and prior periods and discounting that amount.

The calculation of defined benefits obligations is performed on a periodic basis by a qualified actuary using the projected unit credit method.

Remeasurements of the retirement benefits liability, which comprise of actuarial gains and losses, are recognized immediately in other comprehensive income. Such remeasurement are also immediately recognized in equity under "Accumulated remeasurements on retirement benefits". The Company determines the interest expense on the retirement benefits liability for the period by applying the discount rate used to measure the defined benefits obligation at the beginning of the annual period to the then retirement benefits liability, taking into account any changes in the retirement benefits liability during the period as a result of benefit payments, if any. Interest expense and other expenses related to defined benefits plans are recognized in profit or loss.

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

#### Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- the contract involves the use of an identified asset - this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and,
- the Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Company has the right to direct the use of the asset if either:
  - the Company has the right to operate the asset; or
  - the Company designed the asset in a way that predetermines how and for what purpose it will be used.

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.



#### *Company as a Lessee*

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The right-of-use asset is subsequently amortized using the straight-line method from the commencement date to the end of the lease term unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case, the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment loss, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following: (a) fixed payments, including in-substance payments; (b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date; (c) amounts expected to be payable under a residual value guarantee; and, (d) the exercise price under a purchase option the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise and extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension, or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company has presented interest expense on the lease liability separately from the amortization charge for the right-of-use asset. The interest expense on lease liability is presented under "Other charges - net" in profit or loss.

### Income Taxes

Provision for income tax is composed of current income tax and deferred income tax. Provision for income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income, in which case, it is recognized directly in equity or in other comprehensive income.

#### *Current Income Tax*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used as basis to compute the amount are those that have been enacted or substantively enacted at the reporting date.

#### *Deferred Income Tax*

Deferred income tax is provided, using the balance sheet liability method, 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 income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences can be utilized.

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

Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

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

### Related Party Transactions and Relationships

Related party relationships exist when the party has the ability to control, directly or indirectly, through one or more intermediaries, or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting entity and its key management personnel, directors or stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely to the legal form.

### Foreign Currency-denominated Transactions and Translations

Transactions in foreign currencies are recorded using the functional currency exchange rate at the date of the transaction. Outstanding monetary assets and monetary liabilities denominated in foreign currencies are translated using the closing exchange rate at the reporting date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

### Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of the provision to be reimbursed, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss, net of reimbursement. If the effect of the time value of money is material, provisions are discounted using the current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

### Contingencies

Contingent liabilities are not recognized in the financial statements but are disclosed in the notes to financial statements unless the 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 position at the reporting date (adjusting events) are reflected in the financial statements. Events after the reporting date that are not adjusting events are disclosed in the notes to financial statements when material.

### Standards Issued but Not Yet Adopted

A number of amendments to standards are effective for annual periods beginning after January 1, 2020. However, the Company has not applied the following amended standards in preparing these financial statements. Unless otherwise stated, none of these are expected to have a significant impact on the Company's financial statements.

The Company plans to adopt the following amended standards on the respective effective dates, as applicable.

#### *Effective June 1, 2020*

- PFRS 16, *Leases - COVID-19 Related Rent Concessions (Amendments)* introduce an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. A lessee that applies the practical expedient is not required to assess whether eligible rent concessions are lease modifications, and accounts for them in accordance with other applicable guidance. The practical expedient is applicable if: the revised consideration is substantially the same or less than the original consideration; the reduction in lease payments relates to payments due on or before June 30, 2021; and, no other substantive changes have been made to the terms of the lease.

Lessees applying the practical expedient are required to disclose that fact, whether they have applied the practical expedient to all eligible rent concessions and, if not, the nature of the contracts to which they have applied the practical expedient; and the amount recognized in profit or loss for the reporting period arising from application of the practical expedient. No practical expedient is provided for lessors.

Earlier application is permitted. The amendments apply retrospectively, recognizing the cumulative effect of the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate.

The Company has not entered to a rent concessions agreement for the year ended December 31, 2020.

*Effective January 1, 2021*

- PFRS 9, *Financial Instruments*, PAS 39, *Financial Instruments: Recognition and Measurement*, PFRS 7, *Financial Instruments: Disclosures*, PFRS 4, *Insurance Contracts*, and PFRS 16, *Leases - Interest Rate Benchmark Reform - Phase 2 (Amendments)* ensure that financial statements best reflect the economic effects of interest rate benchmark reforms, the Phase 2 amendments were issued and focus on the accounting once a new benchmark rate is in place. The reliefs allow companies not to recognize significant modification gains or losses on financial instruments and mitigate the risk of discontinuations of existing hedging relationships because of changes required by reforms. The amendments address issues that might affect financial reporting during the reform in the following key areas:
  - Practical expedient for particular changes to contractual cash flows. As a practical expedient, a company will account for a change in the basis for determining the contractual cash flows that is required by the reform by updating the effective interest rate of the financial instrument. If there are other changes to the basis for determining the contractual cash flows, then a company first applies the practical expedient to the changes required by the reform and then applies other applicable requirements of PFRS 9 to other changes. A similar practical expedient applies to insurers applying PAS 39 and lessees for lease modifications required by a reform.
  - Relief from specific hedge accounting requirements. The amendments enable and require companies to continue hedge accounting in circumstances when changes to hedged items and hedging instruments arise as a result of changes required by the reform. A company is required to amend the formal designation of hedging relationships to reflect the changes required by the reform. Reliefs are also provided for amounts accumulated in the cash flow hedge reserve, the separately identifiable requirement, groups of items designated as hedged items and retrospective effectiveness assessment under PAS 39.
  - Disclosure requirements. To enable users of financial statements to understand the effect of reforms on a company's financial instruments and risk management strategy, additional disclosures are required on how transition to alternative benchmark rates are being managed, quantitative information about financial instruments indexed to rates yet to transition due to benchmark reform at the end of the reporting period, and the extent to which changes to the risk management strategy have occurred due to the risks identified in the transition.

The amendments apply retrospectively, but restatement of comparative information is not required. Earlier application is permitted. The amendments are still subject to the approval by the FRSC.

Effective January 1, 2022

- PAS 16, *Property, Plant and Equipment - Proceeds before Intended Use (Amendments)* prohibit an entity from deducting from the cost of an item of property, plant and equipment the proceeds from selling items produced before that asset is available for use. The proceeds before intended use should be recognized in profit or loss, together with the costs of producing those items which are identified and measured in accordance with PAS 2, *Inventories*.

The amendments also clarify that testing whether an item of property, plant and equipment is functioning properly means assessing its technical and physical performance rather than assessing its financial performance.

For the sale of items that are not part of a company's ordinary activities, the amendments require the company to disclose separately the sales proceeds and related production cost recognized in profit or loss and specify the line items in which such proceeds and costs are included in the statement of comprehensive income. This disclosure is not required if such proceeds and cost are presented separately in the statement of comprehensive income.

The amendments apply retrospectively on or after January 1, 2022, but only to items of property, plant, and equipment made available for use on or after the beginning of the earliest period presented, recognizing the cumulative effect in the opening retained earnings (or other component of equity, as appropriate) of that earliest period presented. Earlier application is permitted.

- PAS 37, *Provisions, Contingent Liabilities and Contingent Assets - Onerous Contracts - Cost of Fulfilling a Contract (Amendments)* clarify that the cost of fulfilling a contract when assessing whether a contract is onerous includes all costs that relate directly to a contract - i.e. it comprises both incremental costs and an allocation of other direct costs.

The amendments apply prospectively on or after January 1, 2022. At the date of initial application, the cumulative effect of applying the amendments is recognized as an opening balance adjustment to retained earnings or other component of equity, as appropriate. Earlier application is permitted.

- *Annual Improvements to PFRS Standards 2018-2020*. This cycle of improvements contains amendments to four standards. The following are the amendments that are relevant to the Company:
  - PFRS 9, *Financial Instruments - Fees in the '10 per cent' Test for Derecognition of Financial Liabilities (Amendments)* clarify that for the purpose of performing the '10 per cent' test for derecognition of financial liabilities, the fees paid net of fees received included in the discounted cash flows include only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.
  - PFRS 16, *Leases - Lease Incentives (Amendments)* delete from the Illustrative Example 13 the reimbursement relating to leasehold improvements to remove the potential for confusion because the example had not explained clearly enough the conclusion as to whether the reimbursement would meet the definition of a lease incentive in PFRS 16.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022. Earlier application is permitted.



*Effective January 1, 2023*

- PAS 1, *Presentation of Financial Statements - Classification of Liabilities as Current or Non-current (Amendments)* promote consistency in application and clarify the requirements on determining whether a liability is current or non-current, the amendments:
  - removed the requirement for a right to defer settlement of a liability for at least twelve months after the reporting period to be unconditional and instead requires that the right must have substance and exist at the end of the reporting period;
  - clarified that a right to defer settlement exists only if the company complies with conditions specified in the loan agreement at the end of the reporting period, even if the lender does not test compliance until a later date; and
  - clarified that settlement of a liability includes transferring a company's own equity instruments to the counterparty, but conversion options that are classified as equity do not affect classification of the liability as current or non-current.

The amendments apply retrospectively for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted.

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#### **4. Management's Use of Judgments, Accounting Estimates and Assumptions**

The preparation of the financial statements in accordance with PFRS requires management to exercise judgments, make accounting estimates and use assumptions that affect reported amounts of assets, liabilities, income and expenses and related disclosures. Future events may occur which will cause the assumptions used in arriving at the accounting estimates to change. The effects of any change in accounting estimates are reflected in the financial statements as they become reasonably determinable.

Judgments, accounting estimates and assumptions are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Revisions are recognized in the period in which the judgments and estimates are revised and in any future period affected.

##### Judgments

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

##### *Determination of the Company's Functional Currency*

The Company considers factors, including but not limited to, the currency that mainly influences sales prices of its goods and costs of its products. Based on the economic substance of the underlying circumstances relevant to the Company, the functional currency has been determined to be the Philippine Peso. It is the currency that mainly influences the Company's operations.

#### *Identifying a Lease*

The Company uses its judgment in assessing that a contract is, or contains, a lease when the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company has the right to control the asset if it has the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Company reassesses whether a contract is, or contains, a lease only if the terms and conditions of the contract are changed.

*As a Lessee.* The Company has entered into various contracts for the lease of warehouse and office space. The Company has determined that it has the right to control the use of the identified assets over their respective lease terms (see Note 19).

#### *Determining Term and Discount Rate of Lease Arrangements*

Where the Company is the lessee, management is required to make judgments about the lease term and the appropriate discount rate to calculate the present value of the lease payments.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases entered into by the Company as lessee, management uses the incremental borrowing rate, being the rate that the Company would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Company uses an approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Company and makes adjustments specific to the lease. When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate. The weighted average rate applied is 4.11%.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if it is reasonably certain that the lease will be extended (or not terminated) and, as such, included within lease liabilities.

For leases of office space and warehouse, the following factors are usually the most relevant:

- If any leasehold improvements are expected to have a significant remaining value, the Company is typically reasonably certain to extend (or not terminate).
- If there are significant penalties to terminate (or not extend), the Company is typically reasonably certain to extend (or not terminate).
- Otherwise, the Company considers other factors, including historical lease durations, the costs and business disruption required to replace the leased asset, enforceability of the option, and business and other developments.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Company becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and is within the lessee's control, for example, when significant investment in the warehouse and office space is made which has a useful life beyond the current lease term.



#### *Recognition of Revenue*

The Company uses its judgment in determining the timing of the transfer of control on the goods that it delivered. The Company determined that the control is transferred for sale of goods when the Company has transferred physical possession of the goods and obtained the right to payment for the goods which is upon the customer's acceptance of the goods at the customer's warehouse.

#### Accounting Estimates and Assumptions

The key estimates and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below:

#### *Allowance for ECLs on Trade and Other Receivables and Refundable Deposits*

The Company uses the ECL model in estimating the level of allowance which includes forecasts of future events and conditions. A credit loss is measured as the present value of all cash shortfalls (the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive). The model represents a probability-weighted estimate of the difference over the remaining life of the receivables. The maturity of the Company's trade and other receivables refundable deposits is less than one year so the lifetime ECLs and the 12-month ECLs are similar. In addition, management assessed that the credit risk for its trade and other receivables as at the reporting date is low, therefore the Company did not have to assess whether a significant increase in credit risk has occurred.

ECLs of refundable deposits has been measured on a 12-month expected credit loss basis. In determining the ECL of refundable deposits, the Company considers the counterparties' financial condition and their capacity to return the amounts due. The Company assessed that the credit risk for the outstanding refundable deposits is low as majority of these are transacted with a counterparty that has a good credit-standing.

An increase in the allowance for ECLs would increase the recorded operating expenses and decrease current assets.

The combined carrying values of trade and other receivables and refundable deposits amounted to P316,994,402 and P501,350,704 as at December 31, 2020 and 2019, respectively (see Notes 6 and 19). As at December 31, 2020 and 2019, the Company's allowance for ECLs on trade and other receivables amounted to P2,620,922 (see Note 6). No allowance for ECL was provided for refundable deposits as at December 31, 2020 and 2019.

#### *Determination of NRV of Inventories*

The Company's estimates of the NRV of inventories are based on the most reliable evidence available at the time the estimates are made, of the amount that the inventories are expected to be realized. These estimates consider the inventory obsolescence, physical deterioration, fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. A new assessment is made at NRV in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is a clear evidence of an increase in NRV because of changes in economic circumstances, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised NRV.

Management assessed that no allowance to write-down inventories to NRV was necessary as at December 31, 2020 and 2019. The cost of inventories amounted to P673,735,428 and P599,727,310 as at December 31, 2020 and 2019, respectively (see Note 7).

*Estimation of Useful Lives of Property and Equipment*

The Company estimates the useful lives of property and equipment based on the period over which the asset is 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 asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible that future financial performance could be materially affected by changes in these estimates brought about by changes in the factors mentioned. Any reduction in the estimated useful lives of the property and equipment would increase depreciation and amortization expense and decrease noncurrent assets.

The estimated useful lives of property and equipment are discussed in Note 3 to financial statements. There is no change in the Company's estimate of useful lives of property and equipment in 2020 and 2019.

The carrying values of property and equipment amounted to P12,653,123 and P6,540,902 as at December 31, 2020 and 2019, respectively. Depreciation and amortization recognized in profit or loss amounted to P4,055,803 and P3,045,051 for the years ended December 31, 2020 and 2019, respectively (see Note 9).

*Impairment of Noncurrent Nonfinancial Assets*

The Company assesses at the end of each reporting period whether there is any indication that its noncurrent nonfinancial assets which pertain to investment in an associate, right-of-use assets and property and equipment are impaired. If any such indication exists, the Company estimates the recoverable amount of these assets. Determining the fair value of these noncurrent nonfinancial assets which requires the determination of the future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Company to make estimates and assumptions that can materially affect the financial statements. Future events could cause management to conclude that these assets are impaired. Any resulting impairment loss could have a material adverse impact on the Company's financial position and financial performance. The preparation of the estimated future cash flows involves significant judgment and estimations. While management believes that the assumptions made are appropriate and reasonable, significant changes in management assumptions may materially affect the assessment of recoverable values and may lead to future additional impairment charges under PFRS.

In 2020 and 2019, no impairment loss was recognized on the Company's property and equipment, right-of-use assets and investment in an associate.

The combined carrying values of property and equipment, right-of-use assets and investment in an associate amounted to P191,732,098 and P129,585,547 as at December 31, 2020 and 2019, respectively (see Notes 9, 10, and 19).

#### *Estimation of Retirement Benefits Liability and Costs*

The cost of defined benefits retirement plans, as well as the present value of the defined benefits obligation, is determined using actuarial valuations. The actuarial valuations involve making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefits obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting period. The Company has retirement benefits liability amounting to P11,564,165 and P9,203,625 as at December 31, 2020 and 2019, respectively (see Note 18).

#### *Recognition of Deferred Income Tax Assets*

The Company reviews its deferred income tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. The Company also reviews the expected timing and tax rates upon reversal of temporary differences and adjusts the impact on deferred income tax accordingly. The Company's assessment on the recognition of deferred income tax assets is based on the forecasted taxable income of the subsequent reporting periods. This forecast is based on the Company's past results and future expectations on revenues and expenses. While the Company believes that its assumptions are appropriate and reasonable, significant changes in these assumptions may materially affect the Company's assessment of the realizability of deferred income tax assets and may lead to future addition to the provision for deferred income tax.

The Company has recognized deferred income tax assets amounting to P4,578,871 and P4,099,972 as at December 31, 2020 and 2019, respectively (see Note 20).

#### *Provisions and Contingencies*

The Company, in the ordinary course of business, sets up appropriate provisions for certain contractual and regulatory obligations, if any, in accordance with its policies on provisions and contingencies. In recognizing and measuring provisions, management takes risk and uncertainties into account.

The Company has provision for probable losses amounting to P11,974,716 and P13,901,018 as at December 31, 2020 and 2019, respectively. Provision used during the year amounted to P1,926,302. No provision for probable losses was recognized by the Company in 2020 and 2019, respectively (see Note 21).

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## 5. Cash and Cash Equivalents

This account consists of:

	<i>Note</i>	<b>2020</b>	<b>2019</b>
Cash on hand		<b>P955,673</b>	P800,096
Cash in banks	22, 23	<b>206,054,247</b>	179,017,498
Cash equivalents	22, 23	<b>101,351,762</b>	50,132,917
		<b>P308,361,682</b>	P229,950,511

Cash in banks earns interest at the respective bank deposit rates. Interest income earned from cash in banks which are recognized in profit or loss amounted to P658,990 and P1,265,310 for the years ended December 31, 2020 and 2019, respectively (see Note 17).

Cash equivalents pertain to short-term placements which have effective annual interest rate of 0.70% to 3.40% and maturities of 30 to 35 days. Interest income earned from cash equivalents which are recognized in profit or loss amounted to P1,482,279 and P132,917 for the years ended December 31, 2020 and 2019, respectively (see Note 17).

## 6. Trade and Other Receivables - net

This account consists of:

	<i>Note</i>	<b>2020</b>	2019
Trade:			
Related parties	12	<b>P160,397,004</b>	P172,737,750
Third parties		<b>134,820,249</b>	291,249,156
Less allowance for expected credit losses on trade receivables		<b>(2,620,922)</b>	(2,620,922)
		<b>292,596,331</b>	461,365,984
Nontrade			
Third parties		<b>15,941,816</b>	34,655,267
Related parties	12	<b>1,346,711</b>	-
Others		<b>1,316,130</b>	2,126,300
	22, 23	<b>P311,200,988</b>	P498,147,551

Trade receivables are unsecured, non-interest-bearing and generally have a 30 to 60 days credit terms.

Nontrade receivables pertain to receivables from suppliers for the reimbursements of expenses made by the Company for brand promotions. These are non-interest-bearing and generally have a 60 to 90 days credit terms.

## 7. Inventories

This account consists of:

	<i>Note</i>	<b>2020</b>	2019
At cost:			
Spirits		<b>P488,981,182</b>	P457,894,694
Wines		<b>107,583,633</b>	92,171,926
Specialty beverages		<b>77,170,613</b>	49,660,690
	15	<b>P673,735,428</b>	P599,727,310

In 2020 and 2019, the inventories amounting to P985,374,247 and P1,348,453,996, respectively, were recognized as an expense during the year and included in "Cost of goods sold" (see Note 15).

## 8. Prepaid Expenses and Other Current Assets

This account consists of:

	2020	2019
Advances to suppliers	P29,061,024	P241,546,226
Prepaid expenses	786,521	1,280,868
Input VAT on imports	-	4,520,193
	<b>P29,847,545</b>	<b>P247,347,287</b>

Advances to suppliers pertain to initial down payments made by the Company to suppliers which will be applied against future billings.

## 9. Property and Equipment

The movements and balances in this account are as follows:

	Transportation and Equipment	Furniture and Fixtures	Leasehold Improvements	Machinery and Equipment	Office Equipment	Total
<b>Cost</b>						
January 1, 2019	P18,189,420	P3,946,882	P14,201,241	P2,773,002	P9,258,476	P48,369,021
Additions	570,000	-	649,531	131,062	463,062	1,813,655
Disposals	(813,000)	-	-	-	-	(813,000)
December 31, 2019	17,946,420	3,946,882	14,850,772	2,904,064	9,721,538	49,369,676
Additions	1,418,750	14,822	8,445,370	82,759	206,323	10,168,024
Disposals	(629,850)	-	-	-	-	(629,850)
December 31, 2020	<b>18,735,520</b>	<b>3,961,704</b>	<b>23,296,142</b>	<b>2,986,823</b>	<b>9,927,881</b>	<b>68,908,050</b>
<b>Accumulated Depreciation and Amortization</b>						
January 1, 2019	17,525,714	3,914,723	8,541,342	1,918,658	8,698,286	40,598,723
Depreciation and amortization for the year	290,372	21,321	1,681,587	520,412	531,359	3,045,051
Disposals	(813,000)	-	-	-	-	(813,000)
December 31, 2019	17,003,088	3,936,044	10,222,929	2,439,070	9,227,645	42,828,774
Depreciation and amortization for the year	469,868	18,831	2,829,468	377,719	360,099	4,055,803
Disposals	(629,850)	-	-	-	-	(629,850)
December 31, 2020	<b>16,843,322</b>	<b>3,954,675</b>	<b>13,052,397</b>	<b>2,816,789</b>	<b>9,587,744</b>	<b>46,254,927</b>
<b>Carrying Amounts</b>						
December 31, 2019	P943,334	P10,838	P4,627,843	P464,994	P493,893	P6,540,902
December 31, 2020	<b>P1,892,198</b>	<b>P7,029</b>	<b>P10,243,745</b>	<b>P170,034</b>	<b>P340,117</b>	<b>P12,653,123</b>

Depreciation and amortization expense for the years ended December 31, 2020 and 2019 were charged as part of "Operating expenses" in profit or loss.

The cost of fully depreciated property and equipment still in use amounted to P39,190,000 and P35,166,039 as at December 31, 2020 and 2019, respectively.

## 10. Investment in an Associate

The Company entered into a Shareholders' Agreement and a Share Purchase Agreement with Pernod Ricard Asia S.A.S and Allied Netherlands B.V. for the purchase of the shares of stocks of Pernod Ricards Philippines, Inc. (Pernod) for EURO 2.10 million (equivalent to P126,956,404) in February 2019.

Pernod wholesales and distributes distilled spirits. Pernod offers neutral spirits and ethyl alcohol used in blended wines and distilled liquors. Pernod serves customers throughout the world. Its principal address is at 4-C Palm Coast Avenue One E-com Center Building, Pasay City, 1300. As at December 31, 2020 and 2019, the Company owns 30% of Pernod shares.

The financial year end date of Pernod is June 30. This is the reporting date established on the articles of incorporation of the associate. This is also the reporting date adopted by its parent company, Pernod Ricard Asia S.A.S. and its ultimate parent company, Pernod Ricard S.A.

The following table summarizes the financial information of Pernod and shows the reconciliation of the Company's share in net assets of such investee to the carrying amounts of its investment as of December 31:

	2020	2019
<b>Percentage ownership interest</b>	<b>30%</b>	<b>30%</b>
Current assets	P592,719,120	P823,322,979
Noncurrent assets	186,310,604	193,217,651
Current liabilities	480,425,734	627,083,858
Noncurrent liabilities	32,304,561	40,381,518
<b>Net assets</b>	<b>266,299,429</b>	<b>349,075,254</b>
Company's share of net assets	79,889,828	P104,722,576
Goodwill	13,470,977	13,470,977
<b>Carrying amount of investment in an associate</b>	<b>P93,360,805</b>	<b>P118,193,553</b>
Revenue	P585,611,318	P1,339,369,395
Net loss/total comprehensive loss	(82,775,824)	(29,209,504)
<b>Company's share in net losses (30%)</b>	<b>(P24,832,747)</b>	<b>(P8,762,851)</b>

## 11. Trade and Other Payables

This account consists of:

	Note	2020	2019
Trade payables to third parties		P67,510,799	P103,214,594
Nontrade:			
Related parties	12	2,507,500	948,310
Third parties		18,150,397	7,423,349
Accrued expenses		21,095,240	22,197,936
Payables to government agencies		3,635,718	1,288,898
	22	<b>P112,899,654</b>	<b>P135,073,087</b>

Trade payables are non-interest-bearing and generally have a 30 to 60 days credit terms.



Nontrade payables are amounts owed to nontrade suppliers such as manpower agencies, freight companies and other nontrade transactions. These are non-interest-bearing and generally have a 30 to 60 days credit terms. These also include interest on advances from Parent Company.

Accrued expenses consist mainly of accruals for warehousing, salaries and wages, utilities, importation charges and other operating expenses.

## 12. Related Party Transactions

Transactions and account balances with related parties as at and for the years ended December 31 are as follows:

Category	Year	Note	Transactions During the Year	Outstanding Balance		Terms	Conditions
				Amounts Receivable from Related Parties	Amounts Owed to Related Parties		
Parent Company							
• Management fee	2020	a	P -	P -	P106,700,000	Due and demandable	Unsecured
	2019		.	-	106,700,000	non-interest-bearing	
Entities under Common Control							
• Advances	2020	b	-	-	86,000,000	Payable on demand;	Unsecured
	2019		151,618	-	86,151,618	interest-bearing	
• Interest expense	2020	b, 11, 17	1,720,000	-	2,607,500	Payable on demand	Unsecured
	2019		1,062,292	-	787,500		
• Sales of goods	2020	c, 6	579,492,707	160,397,004	-	30 to 60-day credit term; non-interest-bearing	Unsecured;
	2019		519,081,156	172,737,750	-		no impairment
• Lease liabilities	2020	d, 19	16,616,722	-	97,715,578	Payable on a monthly basis	Unsecured
	2019		12,173,857	-	3,693,860		
• Reimbursement of expenses	2020	e, 5, 11	1,346,711	1,346,711	-	Payable on demand;	Unsecured
	2019		160,810	-	160,810	non-interest-bearing	
<b>TOTAL</b>	<b>2020</b>			<b>P161,743,716</b>	<b>P292,923,078</b>		
<b>TOTAL</b>	<b>2019</b>			<b>P172,737,750</b>	<b>P197,493,788</b>		

- This pertains to amount due to the Parent Company for corporate services rendered in 2017 and 2016.
- These are cash advances from an entity under common control for additional working capital requirements. These advances earn annual interest rate of 2.0% and 4.5% for 2020 and 2019, respectively with maturities of two (2) years.
- In the normal course of business, the Company distributes wines and liquors to entities under common control (see Note 6).
- The Company entered into lease agreements with entities under common control for its office space and warehouse. These leases have terms ranging from three (3) years to five (5) years, renewable under terms and condition agreed upon by both parties. Information about these leases is presented in Note 19. Lease expenses include amortization expense on right-of-use assets and interest expense on lease liabilities (see Note 19).
- This represents cash advances to officers and related parties as at December 31, 2020 and cash advances from officers and related parties as at December 31, 2019 in the form of reimbursement of expenses and working capital advances.



- f. The compensation of the key management personnel of the Company, by benefit type, follows:

	2020	2019
Short-term employee benefits	P4,227,600	P4,215,415
Retirement benefits cost	160,997	111,204
	<b>P4,388,597</b>	<b>P4,326,619</b>

As at December 31, 2020 and 2019, amounts owed to related parties are presented as follows:

	<i>Note</i>	2020	2019
Trade and other payables	11	P2,507,500	P948,310
Lease liabilities	19	97,715,578	3,693,860
Due to related parties		192,700,000	192,851,618
		<b>P292,923,078</b>	<b>P197,493,788</b>

### 13. Loan Payable

This account pertains to unsecured, peso-denominated loans obtained from a local bank with maturity of 90 days with annual interest rate of 3.21% and 5.875% as at December 31, 2020 and 2019, respectively. This loan is intended to finance the inventory build-up and additional working capital requirements of the Company. This loan is not subject to compliance with any loan covenant.

Movement in loan payable is as follows:

	<i>Note</i>	2020	2019
Balances at beginning of year		P313,000,000	P357,000,000
Interest charge for the year	17	10,054,377	23,302,000
Payments made:			
Principal portion of loan payable		(313,000,000)	(170,000,000)
Interest expense		(10,054,377)	(23,302,000)
Availment of loan		-	126,000,000
Balances at end of year	23, 24	<b>P -</b>	<b>P313,000,000</b>

The Company fully settled its loan payable on December 15, 2020.

Interest expenses recognized in profit or loss relating to loan payable amounted to P10,054,377 and P23,302,000 for the years ended December 31, 2020 and 2019, respectively (see Notes 17 and 24).

### 14. Equity

#### Capital Stock

The capital stock of the Company is as follows:

	2020	2019
Ordinary shares	P150,000,000	P150,000,000
Additional paid-in capital	1,500,000	1,500,000
	<b>P151,500,000</b>	<b>P151,500,000</b>

Ordinary shares carry one vote per share and a right to dividends.

Additional paid-in capital pertains to amount paid on the issuance of shares in excess of par value.

Below are the details of the ordinary shares:

	Number of Shares	Amount
<b>Authorized P100 par value</b>	<b>1,500,000</b>	<b>P150,000,000</b>
<b>Issued and Outstanding</b>		
Balance at beginning and end of year	1,500,000	P150,000,000

#### Retained Earnings

On December 11, 2015, the Company's BOD approved the declaration of cash dividends amounting to P100,000,000, payable to stockholders of record as at the same date. The management is planning to settle in 2021 the dividends payable as at December 31, 2020.

Stock corporations are prohibited from retaining surplus profits in excess of one hundred (100%) percent of their paid-in capital stock, except:

- a. when justified by definite corporate expansion projects or programs approved by the BODs; or
- b. when the corporation is prohibited under any loan agreement with any financial institutions or creditors, whether local or foreign, from declaring dividends without their consent, and such consent has not yet been secured; or
- c. when it can be clearly shown that such retention is necessary under special circumstances of the corporation, such as when there is a need for special reserve for probable contingencies.

As at December 31, 2020, the Company has retained earnings in excess of its paid-up capital. The Company is planning to apply for an increase in the authorized capital stock of the Company with the SEC in 2021 amounting to P500,000,000 to address the excess retained earnings.

#### **15. Cost of Goods Sold**

This account consists of:

	<i>Note</i>	2020	2019
Inventory at beginning of year		P599,727,310	P564,920,108
Net purchases during the year		1,059,382,365	1,383,261,198
Cost of goods available for sale		1,659,109,675	1,948,181,306
Inventory at end of year	7	(673,735,428)	(599,727,310)
		<b>P985,374,247</b>	<b>P1,348,453,996</b>

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## 16. Operating Expenses

This account consists of:

	<i>Note</i>	2020	2019
Salaries, wages and other employee benefits	18	P45,073,453	P43,970,386
Warehousing and delivery		39,323,682	26,075,964
Depreciation and amortization	9, 19	18,816,081	12,820,052
Taxes and licenses		6,998,946	5,442,298
Advertising		6,821,615	61,591,647
Utilities		1,889,657	2,239,733
Insurance		1,764,115	1,787,795
Professional fees		1,578,286	202,520
Rental expense	19	1,513,694	-
Janitorial services		915,408	742,622
Office supplies		621,030	668,445
Transportation and travel		571,519	1,120,676
Repair and maintenance		530,032	226,192
Representation		120,541	728,252
Miscellaneous		514,051	789,725
		<b>P127,052,110</b>	<b>P158,406,307</b>

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## 17. Other Charges - net

This account consists of:

	<i>Note</i>	2020	2019
Interest expense	12, 13, 19, 24	(P13,331,760)	(P24,951,433)
Interest income	5	2,141,269	1,398,227
Foreign exchange gain (loss) - net	22	(1,883,805)	3,683,336
Bank charges		(210,888)	(864,601)
Others		2,292,354	160,714
		<b>(P10,992,830)</b>	<b>(P20,573,757)</b>

Others pertain to gain on disposal of property and equipment and on refund of excess payments to rental expenses made by the Company in previous years.

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## 18. Retirement Benefits Liability

The Company does not have an established retirement plan and only conforms to the minimum regulatory benefit under the Retirement Pay Law (Republic Act No. 7641) which is of the final salary defined benefit type and provides a retirement benefit equal to 22.5 days' pay for every year of credited service for employees who attain the normal retirement age of sixty (60) with at least five (5) years of service. The regulatory benefit is paid in a lump sum upon retirement.

The succeeding table summarizes the components of the retirement benefits cost under a defined benefits retirement plan recognized in profit or loss and the amount of retirement benefits liability recognized in the statements of financial position. Annual cost is determined using the projected unit credit method. The Company's latest actuarial valuation date is December 31, 2020.

The table below shows the present value of the defined benefits retirement obligation/ retirement benefits liability and its components as at December 31:

	2020	2019
<b>Balance at beginning of year</b>	<b>P9,203,625</b>	P6,562,556
<b>Recognized in Profit or Loss</b>		
Current service cost	1,176,785	637,948
Interest expense	476,748	492,192
	<b>1,653,533</b>	1,130,140
<b>Included in Other Comprehensive Income</b>		
Actuarial loss (gain) arising from:		
Financial assumptions	1,149,052	1,539,531
Experience adjustments	(982,449)	(28,602)
Demographic assumptions	540,404	-
	<b>707,007</b>	1,510,929
<b>Balance at end of year</b>	<b>P11,564,165</b>	P9,203,625

The retirement benefits costs is recognized as part of "Salaries, wages, and other employee benefits" under "Operating expenses" in profit or loss (see Note 16).

There are no unusual or significant risks to which the retirement benefits liability exposes the Company. However, it should be noted that in the event a benefit claim arises under the retirement benefits liability, the benefit shall immediately be due and payable from the Company.

The principal actuarial assumptions (in percentages) as at December 31 used to determine retirement benefits liability are as follows:

	2020	2019
Discount rate	<b>3.96%</b>	5.18%
Salary increase rate	<b>8.00%</b>	8.00%

The valuation results are based on the employee data as of the valuation date. The discount rate assumption is based on the Bankers Association of the Philippines (BAP) PHP Bloomberg BV AL Reference Rates (BVAL) benchmark reference curve for the government securities market (previously the PDEX (PDST-R2) market yields on benchmark government bonds) as of the valuation date and considering the average years of remaining working life of the employees as the estimated term of the benefit obligation.

Assumptions for mortality and disability rates are based on published statistics and mortality and disability tables.

The weighted average duration of the benefit payments is approximately 8.9 years and 8.4 years as at December 31, 2020 and 2019, respectively.

#### Sensitivity Analysis

Each sensitivity analysis on the significant actuarial assumptions was prepared by remeasuring the retirement benefits liability at the balance sheet date after first adjusting one of the current assumptions according to the applicable sensitivity increment or decrement (based on changes in the relevant assumption that were reasonably possible at the valuation date) while all other assumptions remained unchanged.

The sensitivities were expressed as the corresponding change in the retirement benefits liability as shown below:

	2020		2019	
	Defined Benefits Obligation		Defined Benefits Obligation	
	1 Percent Increase	1 Percent Decrease	1 Percent Increase	1 Percent Decrease
Discount rate	(P956,450)	P1,108,938	(P720,182)	P823,851
Future salary growth	1,053,864	(931,130)	793,010	(708,698)

It should be noted that the changes assumed to be reasonably possible at the valuation date are open to subjectivity, and do not consider more complex scenarios in which changes other than those assumed may be deemed to be more reasonable.

It should be noted that in the event a benefit claim arises under that plan, the benefits shall be due and payable from the Company.

#### Funding Arrangements

Since the Company does not have a formal retirement plan, benefit claims under the retirement benefits liabilities are paid directly by the Company when they become due.

#### Asset-liability Matching

The Company does not have a formal retirement plan and therefore has no plan assets to match against the liabilities under the defined benefits obligation.

Maturity analyses based on a ten (10) year projection of the expected future benefit payments is as follows:

Defined Benefits Obligation	Carrying Amount	Contractual Cash Flows	Within 1 Year	Within 1-5 Years	More than 5 Years
2020	P11,664,165	P8,946,836	P764,001	P7,664,570	P518,265
2019	P9,203,625	P10,698,659	P322,900	P4,060,315	P6,315,444

## 19. Lease Agreements

The significant lease agreements entered into by the Company are as follows:

- a. The Company leases from an entity under common control its office space with total area of 408.5 square meters for a term of three (3) years until July 15, 2018, renewable under terms and condition agreed upon by both parties. This lease agreement was subsequently renewed for three (3) years from July 16, 2018 to July 15, 2021. Escalation rate is 10% every three years thereafter (see Note 12).
- b. On February 20, 2015, the Company entered into a lease agreement with a third party for a covered warehouse and office building for a term of five (5) years from April 1, 2015 to March 31, 2020, renewable upon agreement by both parties. Escalation rate is 5% starting third year and 10% starting fourth year. The lease agreement was not renewed before the expiration date.



Due to Corona Virus Disease 2019 (COVID-19) imposed travel restrictions and community lockdown, the Company and the lessor agreed after the expiration period to extend the lease arrangement under the same terms and condition until June 11, 2020. The Company accounted for the extended lease period as a short-term lease. Rental expenses incurred amounting to P1,513,694 were recognized in profit or loss (see Note 16).

- c. On June 1, 2020, the Company entered into a lease agreement with an entity under common control for a covered warehouse and office building for a term of five (5) years from June 1, 2020 to May 31, 2025, renewable upon agreement by both parties. Escalation rate is 5% starting third year of the lease and every year thereafter (see Note 12).
- d. On September 1, 2020, the Company entered into a lease agreement with an entity under common control for a covered warehouse and office building with a for a term of five (5) years from September 1, 2020 to August 31, 2025, renewable upon agreement by both parties. Escalation rate is 5% starting third year of the lease and every year thereafter (see Note 12).

The lease agreements provide for, among others, security deposits amounting to a total of P5,793,414 and P3,203,153 as at December 31, 2020 and 2019, respectively, which are shown as "Refundable deposits" in the statements of financial position.

i. Right-of-Use Assets

The Company's right-of-use assets pertain to the leases of office space and covered warehouse. Detailed movement in the right-of-use assets is presented below:

	Office	Warehouse	Total
<b>Cost</b>			
Balances at January 1 and December 31, 2019	P7,105,607	P35,372,338	P42,477,945
Additions	-	95,627,356	95,627,356
Derecognition	-	(35,372,338)	(35,372,338)
<b>Balances at December 31, 2020</b>	<b>7,105,607</b>	<b>95,627,356</b>	<b>102,732,963</b>
<b>Accumulated Amortization</b>			
Balances at January 1, 2019	1,322,600	26,529,252	27,851,852
Amortization for the year	2,700,533	7,074,468	9,775,001
Balances at December 31, 2019	4,023,133	33,603,720	37,626,853
Amortization for the year	1,898,207	12,862,071	14,760,278
Derecognition	-	(35,372,338)	(35,372,338)
<b>Balances at December 31, 2020</b>	<b>5,921,340</b>	<b>11,093,453</b>	<b>17,014,793</b>
<b>Carrying Amount</b>			
December 31, 2019	P3,082,474	P1,768,618	P4,851,092
<b>December 31, 2020</b>	<b>P1,184,267</b>	<b>P84,533,903</b>	<b>P85,718,170</b>

ii. Lease Liabilities

Movements in lease liabilities are as follows:

	<i>Note</i>	2020	2019
Balances at beginning of year		P6,693,116	P17,526,134
Additions from new lease agreements entered during the year		95,627,356	-
Interest charge for the year	17	1,557,383	587,141
Payments made:			
Principal portion of lease liabilities		(5,928,322)	(10,833,018)
Interest expense		(233,955)	(587,141)
Balances at end of year	22, 23, 24	P97,715,578	P6,693,116

Maturity analyses of the undiscounted lease liabilities as at December 31, 2020 and 2019 are as follows:

	Undiscounted Lease Payments	Interest	Present Value of Lease Liabilities
Not later than one year	P31,854,671	P2,822,375	P29,032,296
Later than one year but not later than five years	73,750,256	5,066,974	68,683,282
Balance at December 31, 2020	P105,604,927	P7,889,349	P97,715,578

	Undiscounted Lease Payments	Interest	Present Value of Lease Liabilities
Not later than one year	P5,596,124	P171,360	P5,424,764
Later than one year but not later than five years	1,290,665	22,313	1,268,352
Balance at December 31, 2019	P6,886,789	P193,673	P6,693,116

The Company's lease liabilities classified in the statements of financial position are as follows:

	<i>Note</i>	2020	2019
Current			
Related parties	12	P29,032,296	P2,425,508
Third party		-	2,999,256
Noncurrent - Related parties	12	68,683,282	1,268,352
		P97,715,578	P6,693,116



iii. Amounts Recognized in Profit or Loss

	Note	2020	2019
Amortization expense	16	P14,760,278	P9,775,001
Interest on lease liabilities	17	1,557,383	587,141
Expenses relating to short term lease	16	1,513,694	-
		<b>P17,831,355</b>	<b>P10,362,142</b>

iv. Amounts Recognized in the Statements of Cash Flows

	Note	2020	2019
Total cash outflows for leases	24	<b>P6,162,277</b>	<b>P11,420,159</b>

## 20. Income Taxes

The components of provision for income tax are shown below:

	2020	2019
Current	<b>P30,666,360</b>	P19,139,647
Deferred	<b>(636,531)</b>	667,930
	<b>P30,029,829</b>	<b>P19,807,577</b>

Current provision for income tax represents regular corporate income tax in 2020 and 2019.

The reconciliation of the provision for income tax computed at the statutory income tax rate and the provision for income tax shown in profit or loss for the years ended December 31 is as follows:

	2020	2019
Income before income tax	<b>P72,764,964</b>	P66,846,716
Provision for income tax computed at statutory income tax rate of 30%	<b>P21,829,489</b>	P20,054,015
Additions to (reductions in) income taxes resulting from the tax effects of:		
Share in net loss of an associate	<b>7,449,824</b>	-
Nondeductible expense	<b>1,392,897</b>	173,030
Interest income subjected to final tax	<b>(642,381)</b>	(419,468)
Provision for income tax	<b>P30,029,829</b>	<b>P19,807,577</b>

The components of the Company's net deferred income tax assets are as follows:

	2020	2019
Retirement benefits liability	<b>P3,469,249</b>	P2,761,087
Allowance for expected credit losses on trade receivables	<b>786,277</b>	786,277
Effect of PFRS 16	<b>323,345</b>	552,608
Unrealized foreign exchange gains	<b>(24,865)</b>	(394,599)
	<b>P4,554,006</b>	<b>P3,705,373</b>

The movements of net deferred income tax assets are accounted for as follows:

	2020	2019
Amount charged to profit or loss	P636,531	(P667,930)
Amount charged to OCI relating to remeasurement on retirement benefits	212,102	453,278
Net increase (decrease) in deferred income tax assets	P848,633	(P214,652)

## 21. Provision

The Company sets-up a provision for any probable liabilities that may arise as a result of conducting its business. The disclosures of additional details beyond the present disclosures may prejudice the Company's position with respect to these matters. Thus, as allowed by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, only a general description is provided.

The movements and balances of provisions as at and for the years ended December 31 are as follows:

	2020	2019
Balances at beginning of year	P13,901,018	P13,901,018
Provision used during the year	(1,926,302)	-
Balances at end of year	P11,974,716	P13,901,018

No provision for probable losses was recognized by the Company in 2020 and 2019.

## 22. Financial Risk and Capital Management Objectives and Policies

### Objectives and Policies

The Company's BOD has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's financial instruments comprise of cash in banks, cash equivalents, trade and other receivables, refundable deposits, trade and other payables, due to related parties, lease liabilities, loan payable and dividends payable.

The main objectives of the Company's financial risk management are as follows:

- to identify and monitor such risks on an ongoing basis;
- to minimize and mitigate such risks; and
- to provide a degree of certainty about costs.

The Company's finance and treasury functions operate as a centralized service for managing financial risks and activities as well as providing optimum investment yield and cost-efficient funding for the Company.

The Company has exposure to the following risks from its use of financial instruments:

- Credit Risk
- Liquidity Risk
- Market Risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risks, and the Company's management of capital.

There were no changes in the exposures to each of the above risks and to the Company's objectives, policies and processes for measuring and managing the risk from the previous period. The policies for managing specific risks are summarized below:

#### Credit Risk

Credit risk represents the risk of loss the Company would incur if credit customers and counterparties fail to perform their contractual obligations. The Company's credit risk arises from the Company's use of its financial assets. Credit risk management involves entering into financial transactions only with counterparties with acceptable credit rating.

The carrying amount of financial assets represents the maximum credit exposure to credit risk as at December 31 as follows:

	Note	2020	2019
Cash in banks	5	P206,054,247	P179,017,498
Cash equivalents	5	101,351,762	50,132,917
Trade and other receivables - net	6	311,200,988	498,147,551
Refundable deposits	19	5,793,414	3,203,153
		<b>P624,400,411</b>	<b>P730,501,119</b>

The Company's policy is to enter into transactions with a diversity of credit worthy parties to mitigate any significant concentration of credit risk. There is no significant concentration of credit risk within the Company.

As at December 31, 2020 and 2019, the Company does not expect any counterparty, other than trade customers, to fail in meeting its obligations, thus, related risk is deemed to be insignificant.

#### *Credit Quality*

In monitoring and controlling credit extended to counterparty, the Company adopts a comprehensive credit rating system based on financial and non-financial assessments of its customers. Financial factors being considered comprised of the financial standing of the customer while the nonfinancial aspects include but are not limited to the assessment of the customer's nature of business, management profile, industry background, payment habit and both present and potential business dealings with the Company.

The Company assessed the credit quality of the financial assets as follows:

- a. Cash in banks and cash equivalents were assessed as high grade since these are deposited in reputable banks with a good credit standing, which have a low probability of insolvency and can be withdrawn anytime. The credit quality of these financial assets is considered to be high grade.
- b. Trade and other receivables were assessed as standard grade since these include receivables that are collected on their due dates even without an effort from the Company to follow them up.
- c. Standard grade for refundable deposits pertains to unsecured rental deposit related to the Company's lease commitment.

#### *ECL Assessment*

The Company allocates each exposure to a credit risk on data that are determined to be predictive of the risk of loss (including but not limited to external ratings, audited financial assets, management accounts and cash flow projections and available press information about customers) and applying expected credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default.

In measuring the expected credit losses, trade and other receivables have been assessed on a collective basis as they pose shared credit risk characteristics. They have been grouped based on the days past due.

The following table provides information about the exposure to credit risk for trade and other receivables as at December 31, 2020 and 2019:

	December 31, 2020		
	Gross Carrying Amount	Expected Credit Loss Allowance	Credit-impaired
Current (not past due)	P193,296,183	P -	No
1 - 30 days past due	97,818,233	-	No
31 - 60 days past due	11,838,070	-	No
61 - 90 days past due	1,836,929	-	No
91 - 180 days past due	536,772	-	No
181 - 360 days past due	2,076,428	-	No
More than 360 days past due	6,420,295	2,620,922	Yes
	<b>P313,821,910</b>	<b>P2,620,922</b>	

	December 31, 2019		
	Gross Carrying Amount	Expected Credit Loss Allowance	Credit-impaired
Current (not past due)	P294,771,165	P -	No
1 - 30 days past due	118,622,452	-	No
31 - 60 days past due	35,351,475	-	No
61 - 90 days past due	13,818,532	-	No
91 - 180 days past due	11,747,312	-	No
181 - 360 days past due	22,991,644	-	No
More than 360 days past due	3,465,893	2,620,922	Yes
	<b>P500,768,473</b>	<b>P2,620,922</b>	

The Company applies the simplified approach in providing for expected credit losses prescribed by PFRS 9, which permits the use of the lifetime expected loss provision and applies a provision matrix.

The maturity of the Company's receivables is less than one year so the lifetime expected credit losses and the 12-month expected credit losses are similar.

Exposures within each credit risk grade are assessed based on delinquency and actual credit loss experience. The Company considered both historical loss rate and forward-looking assumption. The Company assessed that the impact of forward-looking assumption is immaterial.

Cash in banks and cash equivalents are considered of good quality as these pertain to deposits in a reputable bank. Impairment on cash has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Company considers that its cash has low credit risk based on the external credit ratings of the counter parties.

The credit risks for security deposit is assessed to have not increased significantly since initial recognition as the counterparties have strong financial position and there are no past due amounts. The Company uses similar approach for assessment of ECLs for security deposit to those used for cash in banks. The Company has assessed that the impact of providing ECL for security deposit is immaterial, thus did not recognize loss allowance

#### Liquidity Risk

The following are the contractual maturities of financial assets and financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

	As at December 31, 2020			
	Carrying Amount	Contractual Cash Flows	Within 1 Year	1 to 5 Years
<b>Financial Assets</b>				
Cash in banks	P206,054,247	P206,054,247	P206,054,247	P -
Cash equivalents	101,351,762	101,351,762	101,351,762	-
Trade and other receivables - net	311,200,988	311,200,988	311,200,988	-
Refundable deposits	5,793,414	5,793,414	-	5,793,414
	<b>P624,400,411</b>	<b>P624,400,411</b>	<b>P618,606,997</b>	<b>P5,793,414</b>

	As at December 31, 2020			
	Carrying Amount	Contractual Cash Flows	Within 1 Year	1 to 5 Years
<b>Financial Liabilities</b>				
Trade and other payables*	P109,263,936	P109,263,936	P109,263,936	P -
Due to related parties	192,700,000	192,700,000	192,700,000	-
Dividend payable	100,000,000	100,000,000	100,000,000	-
Lease liabilities	97,715,578	105,604,927	31,854,671	73,750,256
	<b>P499,679,514</b>	<b>P507,568,863</b>	<b>P433,818,607</b>	<b>P73,750,256</b>

\*Excluding payables to government agencies.

	As at December 31, 2019			
	Carrying Amount	Contractual Cash Flows	Within 1 Year	1 to 5 Years
<b>Financial Assets</b>				
Cash in banks	P179,017,498	P179,017,498	P179,017,498	P -
Cash equivalents	50,132,917	50,132,917	50,132,917	-
Trade and other receivables - net	498,147,551	498,147,551	498,147,551	-
Refundable deposits	3,203,153	3,203,153	-	3,203,153
	<b>P730,501,119</b>	<b>P730,501,119</b>	<b>P727,297,966</b>	<b>P3,203,153</b>

	As at December 31, 2019			
	Carrying Amount	Contractual Cash Flows	Within 1 Year	1 to 5 Years
Financial Liabilities				
Trade and other payables*	P133,784,189	P133,784,189	P133,784,189	P -
Loan payable	313,000,000	314,852,377	314,852,377	-
Due to related parties	192,851,618	192,851,618	192,851,618	-
Dividend payable	100,000,000	100,000,000	100,000,000	-
Lease liabilities	6,693,116	6,886,789	5,596,124	1,290,665
	P746,328,923	P748,374,973	P747,084,308	P1,290,665

\*Excluding payables to government agencies.

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

#### Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and other market prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. The Company is subject to foreign currency risk.

#### Foreign Currency Risk

The Company's foreign currency denominated assets and liabilities as at December 31, 2020 and 2019 are as follows:

Currency	As at December 31, 2020				
	Financial Assets	Financial Liabilities	Net Foreign Currency Liabilities	Exchange Rate	PHP Equivalent
USD	27,782	242,901	(215,119)	48.04	(10,334,317)
EUR	125,486	39,475	86,011	58.69	5,047,986
AUD	39,598	117,713	(78,115)	36.40	(2,843,386)
					(8,129,717)

Currency	As at December 31, 2019				
	Financial Assets	Financial Liabilities	Net Foreign Currency Liabilities	Exchange Rate	PHP Equivalent
USD	-	1,674,832	(1,674,832)	50.74	(84,980,976)
EUR	-	439,285	(439,285)	56.35	(24,753,710)
AUD	-	434,133	(434,133)	35.26	(15,307,530)
GBP	791	-	791	65.99	52,198
					(124,990,018)

Net foreign exchange loss recognized in profit or loss amounted to P1,883,805 for the year ended December 31, 2020 and net foreign exchange gain recognized in profit or loss amounted to P3,683,336 for the year ended December 31, 2019 (see Note 17).

#### *Sensitivity Analysis*

The following table demonstrates sensitivity of cash flows due to changes in foreign exchange rates with all variables held constant.

	December 31, 2020	
	Percentage Increase In Foreign Exchange Rates	Effect in Income after Income Tax
USD	-5.32%	P384,940 increase
EUR	4.15%	146,736 increase
AUD	3.23%	64,351 decrease

	December 31, 2019	
	Percentage Increase In Foreign Exchange Rates	Effect in Income after Income Tax
USD	3.76%	P2,236,699 decrease
EUR	6.57%	1,138,423 decrease
AUD	4.88%	522,905 decrease
GRB	1.11%	406 decrease

Changes in foreign exchange rates are based on the average of the banks' forecasted closing exchange rates during the first quarter of the following calendar year. A movement in the opposite direction would increase/decrease income before income tax by the same amount, on the basis that all other variables remains constant.

#### Capital Management

The Company's objectives, when managing capital, are to increase the value of stockholders' investment and maintain high growth by applying free cash flows to selective investments that would further the Company's worth. The Company sets strategies with the objective of establishing a versatile and resourceful financial management and capital structure.

The Company defines capital as paid-in capital stock, additional paid-in capital and retained earnings. Other components of equity are excluded from capital for purposes of capital management. Profiles for capital ratios are set in the light of changes in the Company's external environment and the risks underlying the Company's business operations and industry.

The Company is not subject to externally-imposed capital requirements.

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### **23. Fair Values of Financial Instruments**

#### *Cash, Trade and Other Receivables, Trade and Other Payables and Dividends Payable*

The carrying amounts of the Company's cash, trade and other receivables, trade and other payables (excluding provision and payables to government agencies) and dividends payable approximate their fair values due to the short-term maturities of these financial instruments.

#### *Refundable Deposits*

The carrying amount of refundable deposit approximates its fair values as the impact of discounting is not significant.



#### *Loan Payable and Due to Related Parties*

The estimated fair values of loan payable and due to related parties are based on the present value of expected future cash flows using the applicable market rates for similar types of loans at reporting date. The difference between the carrying amount and fair value of loan payable and due to related parties is considered immaterial by management.

#### *Lease Liabilities*

The fair value of lease liabilities is based on the prevailing market rates for similar instruments.

The carrying amounts and estimated fair values of the Company's financial assets and financial liabilities as at December 31, 2020 and 2019 are presented below:

	2020		2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial Assets at Amortized Cost</b>				
Cash in banks	P206,054,247	P206,054,247	P179,017,498	P179,017,498
Cash equivalents	101,351,762	101,351,762	50,132,917	50,132,917
Trade and other receivables - net	311,200,988	311,200,988	498,147,551	498,147,551
Refundable deposits	5,793,414	5,775,009	3,203,153	3,195,001
	<b>P624,400,411</b>	<b>P624,382,006</b>	<b>P730,501,119</b>	<b>P730,492,967</b>
	2020		2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Other Financial Liabilities</b>				
Trade and other payables	P109,263,936	P109,263,936	P133,784,189	P133,784,189
Due to related parties	192,700,000	192,700,000	192,851,618	192,851,618
Loan payable	-	-	313,000,000	314,852,377
Dividends payable	100,000,000	100,000,000	100,000,000	100,000,000
Lease liabilities	97,715,578	105,604,927	6,693,116	6,767,071
	<b>P499,679,514</b>	<b>P507,568,863</b>	<b>P746,328,923</b>	<b>P748,255,255</b>

## 24. Reconciliation Between the Opening and Closing Balances for Liabilities Arising from Financing Activities

The reconciliation of movements of liabilities to cash flows arising from financing activities in 2020 and 2019 are as follow:

	Loan Payable	Accrued Interest	Lease Liabilities	Due to Related Parties	Total
Balances at January 1, 2020	P313,000,000	P787,500	P6,693,116	P192,851,618	P513,332,234
<b>Changes from Financing Cash Flows</b>					
Payments of:					
Loan payable	(313,000,000)	-	-	-	(313,000,000)
Lease liabilities	-	-	(5,928,322)	-	(5,928,322)
Advances from related parties	-	-	-	(151,618)	(151,618)
Interest paid	(10,054,377)	-	(233,955)	-	(10,288,332)
<b>Total Changes from Financing Cash Flows</b>	<b>(323,054,377)</b>	<b>-</b>	<b>(6,162,277)</b>	<b>(151,618)</b>	<b>(329,368,272)</b>
<b>Liability-Related Other Changes</b>					
Non-cash additions from new lease agreements entered during the year	-	-	95,627,356	-	95,627,356
Interest expense	10,054,377	1,720,000	1,557,383	-	13,331,760
<b>Total Liability-Related Other Changes</b>	<b>10,054,377</b>	<b>1,720,000</b>	<b>97,184,739</b>	<b>-</b>	<b>108,959,116</b>
Balances at December 31, 2020	P -	P2,507,500	P97,715,578	P192,700,000	P292,923,078

	Loan Payable	Accrued Interest	Lease Liabilities	Due to Related Parties	Total
Balances at January 1, 2019	P357,000,000	P4,103,099	P17,526,134	P297,700,000	P676,329,233
<b>Cashflows from Financing Activities</b>					
Payments of:					
Loan payable	(170,000,000)	-	-	-	(170,000,000)
Advances from related parties	-	-	-	(104,848,382)	(104,848,382)
Lease liabilities	-	-	(10,833,018)	-	(10,833,018)
Proceeds from availment of loan payable	126,000,000	-	-	-	126,000,000
Interest paid	(23,302,000)	(4,377,891)	(587,141)	-	(28,267,032)
<b>Total Changes from Financing Cash Flows</b>	<b>(67,302,000)</b>	<b>-</b>	<b>(11,420,159)</b>	<b>(104,848,382)</b>	<b>(187,948,432)</b>
<b>Liability-Related Other Changes</b>					
Interest expense	23,302,000	1,062,292	587,141	-	24,951,433
Balances at December 31, 2019	P313,000,000	P787,500	P6,693,116	P192,851,618	P513,332,234

## 25. Subsequent Events

### Impact of Corona Virus Disease 2019 (COVID-19)

On March 22, 2021, the Philippine government placed the NCR, Bulacan, Cavite, Laguna, and Rizal (NCR+) under General Community Quarantine (GCQ) starting March 22 to April 4, 2021 to help address the rising cases of COVID-19 in these areas. In light of the recent alarming increase in COVID-19 cases in NCR+, several cities and municipalities have once again issued liquor bans which took effect on March 15, 2021.

On March 29, 2021, NCR+ was placed under the Enhanced Community Quarantine (ECQ) starting March 29 to April 4, 2021, which was further extended to April 11, 2021, to help address the surge of COVID-19 cases in these areas. Moreover, NCR+ was placed under the Modified Enhanced Community Quarantine (MECQ) starting April 12, 2021 to April 30, 2021.

During the ECQ, a strict home quarantine was implemented in all households, all public transportation was suspended, provision for food and essential health services was regulated and the presence of uniformed military personnel to enforce quarantine procedures was heightened. Liquor bans have also been implemented in several areas under ECQ wherein drinking alcoholic beverages in public areas was prohibited and retail stores were only allowed to sell the same during a limited time in the day.

Since the Company's primary operation is the importation and distribution of wines, spirits and other specialty beverages, the Company was only able to operate limitedly amidst the community quarantine period. Moreover, the Company continues to have a skeletal workforce to oversee and ensure facilities, vital equipment, sanitation and security are adequately and properly maintained. The Company has assessed that the ECQ being implemented by the government will have a potential unfavorable impact on the Company's revenues, including the collection of its receivables, among others. However, the quantitative impact of this event on the Company's financial performance for the succeeding quarters is not yet determinable at this date. Nonetheless, the expected decline in operations does not pose a material uncertainty on the Company's ability to continue as a going concern.

Enactment of Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act  
On March 26, 2021, the President of the Philippines has approved the Republic Act (RA) No. 11534, or the "Corporate Recovery and Tax Incentives for Enterprises Act" (CREATE), with nine (9) provisions vetoed by the President. Below are the salient features of the Act that are relevant to the Company:

- Corporate income tax rate is reduced from 30% to 20% for domestic corporations with net taxable income not exceeding P5 million and with total assets not exceeding P100 million. All other domestic corporations and resident foreign corporations will be subject to 25% income tax. Said reductions are effective July 1, 2020.
- Minimum corporate income tax (MCIT) rate is reduced from 2% to 1% effective July 1, 2020 to June 30, 2023.
- The imposition of improperly accumulated earnings tax has been repealed.

On April 8, 2021, the Bureau of Internal Revenue issued the following implementing revenue regulations that are effective immediately upon publication:

- BIR RR No. 2-2021, amending certain provisions of Revenue Regulations No. 2-98, As Amended, to implement the amendments introduced by RA No. 11534 to the National Revenue Code of 1997, as Amended, relative to the final tax on certain passive income.
- BIR RR No. 3-2021, Rules and Regulations implementing Section 3 of RA No. 11534 amending Section 20 of the National Internal Revenue Code of 1997, As Amended.

- BIR RR No. 4-2021, implementing the Provisions on Value-Added Tax (VAT) and Percentage Tax under RA No. 11534 which further amended the National Revenue Code of 1997, as Amended, as implemented by Revenue Regulations No. 16-2005 (Consolidated Value-Added Tax Regulations of 2005), As Amended.
- BIR RR No. 5-2021, implementing the new income tax rates on the regular income of corporations on certain passive incomes, including additional allowable deductions from gross income of persons engaged in business or practice of profession pursuant to RA No. 11534 which further amended the National Revenue Code (NIRC) of 1997.

The enactment of the CREATE Act is a non-adjusting subsequent event thus, the current and deferred income taxes as at December 31, 2020 are measured using the applicable income tax rates as at December 31, 2020.

Further, the Bureau of Internal Revenue has issued its Revenue Regulation No. 5-2021 to promulgate the implementation of the new income tax rates on the regular income of corporations, on certain passive incomes and additional allowable deductions of persons engaged in business or practice of profession as provided for in the CREATE Act. The corporate income tax of the Company will be lowered from 30% to 25% for large corporations, on which the Company would qualify, effective July 1, 2020.

Presented below is the estimated effect of changes in tax rates under the CREATE Act.

	As at December 31, 2020	Effect of Changes in Tax Rates	Amounts Based on the Reduced Tax Rates
<b>Statement of Comprehensive Income</b>			
Provision for income tax - current	P30,666,360	(P2,603,374)	P28,062,986
Provision for income tax - deferred	(636,531)	1,075,135	438,604
Net income for the year	(42,735,135)	(1,528,239)	(44,263,374)
<b>Statement of Financial Position</b>			
Deferred income tax asset - net	4,554,006	(759,002)	3,795,004
Income tax payable	(15,399,144)	2,603,374	(12,795,770)
<b>Statement of Changes in Equity</b>			
Accumulated remeasurements on retirement benefits	(4,425,851)	(316,133)	(4,741,984)

**26. Supplementary Information Required by the Bureau of Internal Revenue (BIR) under Revenue Regulations No. 15-2010**

In addition to the disclosures mandated under PFRS, and such other standards and/or conventions as may be adopted, companies are required by the BIR to provide in the notes to financial statements, certain supplementary information for the taxable year. The amounts relating to such information may not necessarily be the same with those amounts disclosed in the financial statements which were prepared in accordance with PFRS. The following are the tax information required for the taxable year ended December 31, 2020:

**a. VAT**

1. Output VAT	P142,135,823
<b>Account title used:</b>	
Basis of the Output VAT:	
Vatable sales	P1,184,331,262
Zero rated sales	36,680,608
Exempt sales	5,028
Sale of fixed asset	133,928
	<b>P1,221,150,826</b>
2. Input VAT	
Balance at beginning of year	P4,520,193
Current year's domestic purchases:	
a. Goods for resale/manufacture or further processing	41,314,492
b. Importations other than capital goods	80,604,587
c. Services lodged under other accounts	13,915,431
Other adjustments	(690,037)
VAT credits used	(985)
Balance at end of year	P139,663,681
Total Vat payable during the year	P2,472,142
Less: VAT payments during the year	(1,274,827)
Net VAT payable at the end of the year	P1,197,315

**b. Customs Duties and Tariff Fees**

Landed cost of imports	P671,704,888
Customs duties and tariff fees paid or accrued	45,009,946
	<b>P716,714,834</b>

**c. Excise Taxes**

Imported excisable items wines and liquor	P118,403,824
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**d. Documentary Stamp Tax**

On borrowings	P1,695,440
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**e. Withholding Taxes**

Tax on compensation and benefits	P5,559,544
Expanded withholding taxes	6,607,795
	<b>P12,167,339</b>

**f. All Other Taxes (Local and National)**

<i>Other taxes paid during the year recognized under "Taxes and licenses" Account under Operating Expenses</i>	
License and permit fees	P1,171,161
Others	126,822
	<b>P1,297,983</b>

**g. Tax Cases and Assessments**

On November 17, 2020 the Company received a Preliminary Assessment Notice (PAN) covering Income Tax, Value Added Tax, Withholding Tax on Compensation and Documentary Stamp Tax for the taxable year 2019. The initial deficiency assessment based on preliminary investigation amounted to P3,004,116. The Company paid the deficiency tax in March and December 2020.

On October 16, 2020 the Company received a Preliminary Assessment Notice (PAN) covering Value Added Tax for the taxable year 2020. The initial deficiency assessment based on preliminary investigation amounted to P1,001,407. The Company paid the deficiency tax in January 2021.



**CERTIFICATION OF INDEPENDENT DIRECTOR**

I, **ENRICO S. CRUZ**, Filipino, of legal age and a resident of No. 37 Radish Street, Valle Verde V, Pasig, Metro Manila, after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for independent director of Da Vinci Capital Holdings, Inc. and have been its independent director since November 20, 2020.
2. I am affiliated with the following companies or organizations:

COMPANY/ORGANIZATION	POSITION/RELATIONSHIP	PERIOD OF SERVICE
Security Bank Corporation	Independent Director	2019 – present
SB Capital	Vice-Chairman	2020 – present
AREIT, Inc.	Independent Director	2020 – present
Maxicare Corporation	Independent Director	2019 – present
CIBI Information, Inc.	Independent Director	2020 – present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of Da Vinci Capital Holdings, Inc. as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC issuances.

4. I am not related to any of the director/officer/substantial shareholder of Da Vinci Capital Holdings, Inc.

5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding.

6. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance, and other SEC issuances.

7. I shall inform the Corporate Secretary of Da Vinci Capital Holdings, Inc. of any changes in the abovementioned information within five days from its occurrence.

Done, this APR 27 2021 day of April 2021 at City of Manila.

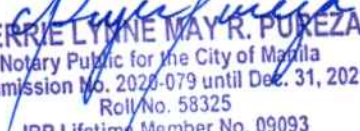
Certification of Independent Director:

  
**ENRICO S. CRUZ**

Nominee for Independent Director  
Da Vinci Capital Holdings, Inc.

SUBSCRIBED AND SWORN to before me this APR 27 2021 day of April 2021 in Manila, Philippines, affiant personally appeared before me and exhibited to me his Driver's License No. N11-75-001060 valid until September 26, 2023.

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Series of 2021.

  
**CHERRIE LYNNE MAY R. PUREZA**  
Notary Public for the City of Manila  
Commission No. 2020-079 until Dec. 31, 2021  
Roll No. 58325  
IBP Lifetime Member No. 09093  
PTR No. 9824725 / 01-05-2021 / Mla.  
MCLE Compliance No. VI-0022458 / 04-16-19  
No. 900 Romualdez St., Paco, Manila



## CERTIFICATION OF INDEPENDENT DIRECTOR

I, **BIENVENIDO E. LAGUESMA**, Filipino, of legal age and with office at 706 Prestige Tower, F. Ortigas, Jr. Road, Ortigas Center, Pasig City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for independent director of Da Vinci Capital Holdings, Inc. and have been its independent director since November 20, 2020.
2. I am affiliated with the following companies or organizations:

COMPANY/ORGANIZATION	POSITION/RELATIONSHIP	PERIOD OF SERVICE
Laguesma Magsalin & Consulta Law Offices	Partner	2001 – present
Maritime Academy of Asia and the Pacific (MAAP)	Director	2019 – present
Anda Power Corporation	Director	2020 – present
Philippine Bank of Communications	Independent Director	2019 – present
Cosco Capital, Inc.	Independent Director	2017 – present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of Da Vinci Capital Holdings, Inc. as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC issuances.

4. I am not related to any of the director/officer/substantial shareholder of Da Vinci Capital Holdings, Inc.

5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding.

6. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance, and other SEC issuances.

7. I shall inform the Corporate Secretary of Da Vinci Capital Holdings, Inc. of any changes in the abovementioned information within five days from its occurrence.

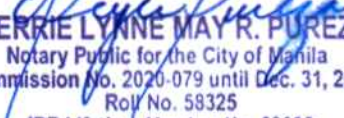
Done, this APR 27 2021 day of April 2021 at City of Manila.

Certification of Independent Director:

  
**BIENVENIDO E. LAGUESMA**  
 Nominee for Independent Director  
 Da Vinci Capital Holdings, Inc.

SUBSCRIBED AND SWORN to before me this APR 27 2021 day of April 2021 in Manila, Philippines, affiant personally appeared before me and exhibited to me his Social Security System No. 335139112.

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 Series of 2021.

  
**CHERRIE LYNNE MAY R. PUREZA**  
 Notary Public for the City of Manila  
 Commission No. 2020-079 until Dec. 31, 2021  
 Rol No. 58325  
 IBP Lifetime Member No. 09093  
 PTR No. 9824725 / 01-05-2021 / Mla.  
 MCLE Compliance No. VI-0022468 / 04-16-19  
 No. 900 Romualdez St., Paco, Manila

## PROXY

The undersigned stockholder of **DA VINCI CAPITAL HOLDINGS, INC.** (the "**Company**") hereby appoints \_\_\_\_\_ or in his/her/its absence, the Chairman of the meeting, as attorney-in-fact and proxy, with power of substitution, to present and vote all shares registered in his/her/its name as proxy of the undersigned stockholder, at the Annual Stockholders' Meeting of the Company on 28 May 2021, and at any of the adjournments thereof for the purpose of acting on the following matters:

- |  |                              |                             |                                  |
|--|------------------------------|-----------------------------|----------------------------------|
| <b>1. Approval of the Minutes of the Previous Meeting</b>  | <input type="checkbox"/> Yes | <input type="checkbox"/> No | <input type="checkbox"/> Abstain |
| <b>2. Approval of the Annual Report and 2020 Audited Financial Statements</b>  | <input type="checkbox"/> Yes | <input type="checkbox"/> No | <input type="checkbox"/> Abstain |
| <b>3. Ratification of Acts of the Board of Directors and Management since the Last Annual Meeting of Stockholders</b>  | <input type="checkbox"/> Yes | <input type="checkbox"/> No | <input type="checkbox"/> Abstain |
| <b>4. Approval of Amendment of the Company's Articles of Incorporation and By-Laws:</b>  | <input type="checkbox"/> Yes | <input type="checkbox"/> No | <input type="checkbox"/> Abstain |
| <b>a. Amendment of Corporate Name</b>  | <input type="checkbox"/> Yes | <input type="checkbox"/> No | <input type="checkbox"/> Abstain |
| <b>b. Amendment of Primary and Secondary Purposes</b>  | <input type="checkbox"/> Yes | <input type="checkbox"/> No | <input type="checkbox"/> Abstain |
| <b>c. Amendment of Corporate Term</b>  | <input type="checkbox"/> Yes | <input type="checkbox"/> No | <input type="checkbox"/> Abstain |
| <b>d. Change in par value of Common Shares</b>   | <input type="checkbox"/> Yes | <input type="checkbox"/> No | <input type="checkbox"/> Abstain |
| <b>e. Increase of authorized capital stock, and delegation to the Company's Board of Directors of the authority to determine the manner of subscription and the subscriber/s of the increase in authorized capital stock</b> | <input type="checkbox"/> Yes | <input type="checkbox"/> No | <input type="checkbox"/> Abstain |
| <b>5. Approval of the Top-Up Plan for the fractional shares resulting from the proposed increase in authorized capital stock</b>   | <input type="checkbox"/> Yes | <input type="checkbox"/> No | <input type="checkbox"/> Abstain |
| <b>6. Ratification of Rescission of Subscription Contract between the Company and Invescap Incorporated</b>  | <input type="checkbox"/> Yes | <input type="checkbox"/> No | <input type="checkbox"/> Abstain |
| <b>7. Issuance of up to 11,250,000,000 Common Shares to Cosco Capital Inc. pursuant to the Share Swap Transaction</b>  | <input type="checkbox"/> Yes | <input type="checkbox"/> No | <input type="checkbox"/> Abstain |
| <b>8. Waiver of requirement to conduct rights offering on the issuance of up to 11,250,000,000 Common Shares to Cosco Capital, Inc.</b>  | <input type="checkbox"/> Yes | <input type="checkbox"/> No | <input type="checkbox"/> Abstain |
| <b>9. Issuance of up to 3,000,000,000 Common Shares Pursuant to the Company's Follow-on Public Offering</b>  |                              |                             |                                  |
| <b>10. Election of Directors</b>   | <b>No. of Votes</b>          |                             |                                  |
| <b>a. Lucio L. Co</b>  | _____                        |                             |                                  |
| <b>b. Jose Paulino L. Santamarina</b>  | _____                        |                             |                                  |

c. Camille Clarisse P. Co

\_\_\_\_\_

d. Janelle O. Uy

\_\_\_\_\_

e. Robin Derrick C. Chua

\_\_\_\_\_

Independent Directors

f. Enrico S. Cruz

\_\_\_\_\_

g. Bienvenido E. Laguesma

\_\_\_\_\_

- Distribute votes equally among nominees
- Withhold authority for all nominees listed above
- Withhold authority to vote for the nominees listed:

\_\_\_\_\_  
\_\_\_\_\_

**11. Appointment of R.G. Manabat & Company (KPMG) as External Auditor and Fixing its Remuneration**

Yes

No

Abstain

**12. Other matters: at his/her/its discretion, the proxy named above is authorized to vote upon such other matters as may properly come before the meeting.**

Yes

No

Abstain

\_\_\_\_\_  
**Printed Name of Stockholder**

\_\_\_\_\_  
**Signature of Stockholder/Authorized Signatory**

\_\_\_\_\_  
**Total Number of Stocks**

\_\_\_\_\_  
**Date**

THIS PROXY SHOULD BE RECEIVED BY THE CORPORATE SECRETARY BY EMAIL ([http://corporate.governance.davinci@gmail.com](mailto:corporate.governance.davinci@gmail.com)) ON OR BEFORE 24 MAY 2021 AT 5:00 P.M., THE DEADLINE FOR SUBMISSION OF PROXIES, TOGETHER WITH PROOF OF IDENTIFICATION, SUCH AS, DRIVER'S LICENSE, PASSPORT, COMPANY ID OR SSS/GSIS ID. ASIDE FROM PERSONAL IDENTIFICATION, REPRESENTATIVES OF CORPORATE STOCKHOLDERS AND OTHER ENTITIES MAY BE REQUIRED TO PRESENT A DULY SWORN SECRETARY'S CERTIFICATE OR ANY SIMILAR DOCUMENT SHOWING HIS OR HER AUTHORITY TO REPRESENT THE CORPORATION OR ENTITY. THE CORPORATE SECRETARY WILL INSPECT, EXAMINE, AND VALIDATE THE SUFFICIENCY OF THE PROXY FORMS RECEIVED.

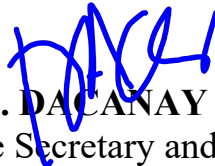
THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER AS DIRECTED HEREIN BY THE STOCKHOLDER(S). IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR THE ELECTION OF ALL NOMINEES AND FOR THE APPROVAL OF THE MATTERS STATED ABOVE AND FOR SUCH OTHER MATTERS AS MAY PROPERLY COME BEFORE THE MEETING IN THE MANNER DESCRIBED IN THE INFORMATION STATEMENT AND/OR AS RECOMMENDED BY MANAGEMENT OR THE BOARD OF DIRECTORS. A STOCKHOLDER GIVING A PROXY HAS THE POWER TO REVOKE IT AT ANY TIME BEFORE THE RIGHT GRANTED IS EXERCISED. A PROXY IS ALSO CONSIDERED REVOKED IF THE STOCKHOLDER ATTENDS THE MEETING IN PERSON (IF THE PREVAILING CIRCUMSTANCES WILL ALLOW) AND EXPRESSES HIS, HER OR ITS INTENTION TO VOTE IN PERSON.

CERTIFICATION

I, **CANDY H. DACANAY – DATUON**, Filipino, of legal age, am the Assistant Corporate Secretary and Compliance Officer of **DA VINCI CAPITAL HOLDINGS, INC.**, I hereby certify that *none* of the directors and officers of the Company works for the Philippine Government as of date hereof.

I am issuing this Certification as a requirement of the Securities and Exchange Commission for the issuance of Definitive Information Statement of the Company.

SIGNED this 11<sup>th</sup> day of May 2021 in the City of Manila, Philippines.



**CANDY H. DACANAY – DATUON**  
Assistant Corporate Secretary and Compliance Officer