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**STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL  
STATEMENTS OF THE COMPANY AND ITS SUBSIDIARY AS OF DECEMBER 31, 2021 AND 2020.**

**REPORT OF INDEPENDENT AUDITORS**

**CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021 AND 2020 AND NOTES  
TO CONSOLIDATED FINANCIAL STATEMENTS**

**REPORT OF INDEPENDENT AUDITORS TO ACCOMPANY SUPPLEMENTARY INFORMATION  
REQUIRED BY THE SEC TO BE FILED SEPARATELY FROM THE BASIC FINANCIAL STATEMENTS**

**SUPPLEMENTARY SCHEDULES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER  
31, 2021 (ANNEX 68-J, SRC RULE 68)**

**REPORT OF INDEPENDENT AUDITORS ON COMPONENTS OF FINANCIAL SOUNDNESS  
INDICATORS**

**SUPPLEMENTAL SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS DECEMBER 31, 2021 AND  
2020.**

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# COVER SHEET

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(Company's Full Name)

S	B	S		P	H	I	L	I	P	P	I	N	E	S		C	O	R	P	O	R	A	T	I	O	N			
(	F	O	R	M	E	R	L	Y		S	Y	T	E	N	G	C	O		P	H	I	L	I	P	P	I	N	E	S
C	O	R	P	O	R	A	T	I	O	N	)																		

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

N	O	.		1	0		R	E	S	T	H	A	V	E	N		S	T	R	E	E	T		S	A	N		
F	R	A	N	C	I	S	C	O		D	E	L		M	O	N	T	E		Q	U	E	Z	O	N			
C	I	T	Y																									

FORM TYPE

AACFS

Department Requiring the Report

M S R D

Secondary License Type, If Applicable

## COMPANY INFORMATION

Company's Email Address

ir@sbsph.com

Company's Telephone Numbers

8 3 7 1 - 1 1 1 1

Mobile Number

No. of Stockholders

11

Annual Meeting

Month/Day

Last Friday of June

Fiscal Year

Month/Day

12/31

## CONTACT PERSON INFORMATION

The designated contact person MUST be an Officer of the Corporation

Name of Contact Person

GERRY D. TAN

Email Address

[g.tan@sbsph.com](mailto:g.tan@sbsph.com)

Telephone Number's

(02) 8371-1111

Contact Person's Address

10 Resthaven Street, San Francisco del Monte, Quezon City



# SBS PHILIPPINES CORPORATION

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The management of SBS Philippines Corporation and Subsidiaries (the Group) is responsible for the preparation and fair presentation of the consolidated financial statements, including the schedules attached therein, for the years ended December 31, 2021 and 2020, 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 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 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 consolidated financial statements, including the schedules attached therein, and submits the same to the stockholders.

Punongbayan and Araullo, the independent auditors appointed by the stockholders, has audited the consolidated financial statements of the Group in accordance with Philippine Standards on Auditing, and in their report to the stockholders, have expressed their opinion on the fairness of presentation upon completion of such audit.

  
Ricardo Nicanor N. Jacinto

Chairman of the Board

  
Gerry D. Tan

Chief Executive Officer

  
Aylene Y. Sytengco

Chief Financial Officer

Signed this 29<sup>th</sup> day of March 2022.

SUBSCRIBED AND SWORN  
TO BEFORE ME THIS **APR 18 2022**  
QUEZON CITY, PHILIPPINES

DOC NO. **131**  
PAGE NO. **27**  
BOOK NO. **4**  
SERIES OF **2022**

  
**ATTY. ROGELIO J. BOLIVAR**  
NOTARY PUBLIC IN QUEZON CITY

AM Adm. Matter No. 264 June 21, 2021 to Dec. 31, 2022  
IPP O. No. 132134 MD 2021 & ISP O.R. No. 133076 MD 2022  
PTR O.R. No. 266325 D 1/3/22 Roll No. 33582 / TIN# 123-871-889  
MCLE No. VI-0029583 valid from 12/16/19 valid until 04/14/22 Quezon City  
Address: 31-F Harvard St. Cubao, Q. C.

Consolidated Financial Statements and  
Independent Auditors' Report

**SBS Philippines Corporation and Subsidiaries**

December 31, 2021, 2020 and 2019

## **Report of Independent Auditors**

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**Punongbayan & Araullo**20<sup>th</sup> Floor, Tower 1

The Enterprise Center

6766 Ayala Avenue

1200 Makati City

Philippines

T +63 2 8988 2288

**The Board of Directors and Stockholders**  
**SBS Philippines Corporation and Subsidiaries**  
**(A Subsidiary of Anesys Holdings Corporation)**

No. 10 Resthaven Street

San Francisco Del Monte, Quezon City

### ***Opinion***

We have audited the consolidated financial statements of SBS Philippines Corporation and subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2021 and 2020, and the consolidated statements of profit or loss, 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, 2021, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2021 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 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 audits 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.

### ***Emphasis of Matter***

We draw attention to Note 1 to the consolidated financial statements, which describes management's assessment of the continuing impact on the Group's consolidated financial statements of the business disruptions brought by the COVID-19 pandemic. Our opinion is not modified in respect of this matter.

**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.

**(a) Revenue Recognition***Description of the Matter*

The Group's revenues consist of revenues from sale of goods and rendering of consultancy services. In our view, there is a significant risk that the amount of revenue reported in the consolidated financial statements, particularly for sale of goods which represents 99.8% of total revenues in 2021, is higher than what has been actually generated by the Group. Revenue is recognized when the control over the goods has been transferred at a point in time to the customer, i.e., generally when the customer has acknowledged delivery of goods. In addition, revenue from sale of goods involves voluminous transactions and requires proper observation of cut-off procedures.

The Group's disclosures about its revenues and the related trade receivables, and revenue recognition policy are included in Notes 2, 3, 5 and 27.

*How the Matter was Addressed in the Audit*

Our audit procedures to address the risk of material misstatement relating to revenue recognition included, among others, the following:

- understanding the policies and procedures applied to revenue recognition, as well as compliance therewith, including an assessment of the design effectiveness of controls related to revenue recognition processes employed by the Group;
- evaluating appropriateness of the Group's revenue recognition policy in accordance with the relevant financial reporting standard,
- confirming trade receivables, on a sample basis, as of the end of the reporting period and performing alternative procedures such as, but not limited to, examining cash receipts or sales and billing invoices;
- testing sales and billing invoices immediately prior and subsequent to the current reporting period to determine whether the related revenue transactions are recognized in the proper reporting period; and,
- performing substantive analytical review procedures over revenues such as, but not limited to, yearly and monthly analyses of sales per customer, verifying validity of the underlying data used in the analyses, and following up variances from our expectations.

**(b) Existence and Valuation of Inventories***Description of the Matter*

Inventories amounting to P776.4 million as of December 31, 2021 represent 9.8% of the Group's total assets. The valuation of these inventories is at lower of cost, which is determined using the moving average method, and net realizable value (NRV). As discussed in Note 6 to the consolidated financial statements, portion of the inventories is carried at cost while the rest is at NRV, based on the estimated selling price less the estimated costs necessary to make the sale. Due to the significant carrying amount of inventories and the significant risk of uncertainty in estimating the NRV of inventories, we consider the existence and valuation of inventories to be key audit matters.



The Group's disclosures about the accounting policies and key sources of estimation uncertainty on inventories are presented in Notes 2 and 3, respectively. In addition, the breakdown of inventories at cost and NRV is disclosed in Note 6.

*How the Matters were Addressed in the Audit*

Our audit procedures to address the risk of material misstatement relating to the existence and valuation of inventories included:

On existence of inventories:

- Observing the physical count conducted by the Group, determining conditions of the inventories, comparing the quantities per count to the quantities recorded and performing the related roll-forward audit procedures to test the quantities of inventory items, on a sample basis, as of December 31, 2021;
- testing the design and operating effectiveness of the relevant internal control procedures related to the physical inventory count and performing cut-off procedures by reviewing information and copies of count control documents;
- analyzing in detail the inventory-related ratios such as, but not limited to, inventory turnover and current year's composition of the total product cost; and,
- vouching of supporting documents such as supplier's invoice and receiving reports for selected samples to ensure the occurrence of inventory additions.

On valuation of inventories:

- evaluating appropriateness and consistency of the application of the method used in the measurement of inventory at lower of cost and NRV with prior periods;
- performing a price test on sample inventory items by examining supporting purchase invoices and relevant documents in order to recompute unit cost and examine movements that might affect the moving average cost per unit;
- testing management estimate on NRV by performing test computations based on estimated selling prices less costs to sell on a sample basis; and,
- assessing the sufficiency and appropriateness of the amount of allowance for inventory writedown by evaluating the key assumptions used on the expected realization of old, slow-moving and obsolete inventories and recalculating the expected amount of inventory write-down based on assumptions used by management.

**(c) Information on Investments in Associates**

*Description of the Matter*

Investments in associates amounted to P2,843.7 million as of December 31, 2021. We have assessed the information on investments in associates as one of our key audit matters as the Group is exposed to risk that the investments are not measured and disclosed properly. This also includes proper assessment whether the entities properly qualify as associates of the Group based on the existence of significant influence but not control.

Furthermore, the Group is exposed to risk of impairment of its investments in associates, as certain associates have been incurring significant losses. The Group's management conducts impairment test to assess the recoverability of the investments in associates when management has determined there are indications of impairment with respect to these investments. Impairment assessment of these investments is considered significant in our audit due to the complexity of the accounting requirements and the significant management judgment required in estimating recoverable amount of investments.

The Group's disclosures about its investments in associates are included in Notes 1 and 7 to the consolidated financial statements while accounting policy on recognition and measurement of investments in associates and related disclosures about management judgement in applying accounting policy are included in Notes 2 and 3, respectively.

*How the Matter was Addressed in the Audit*

Our audit procedures to address the risk of material misstatement relating to the accounting for investments in associates included:

- reading the subscription agreements, general information sheets and relevant financial information of the associates to ensure that information disclosed on the associates are accurate, as well as to determine whether the entities qualify as associates of the Group based on the definition provided in the relevant accounting standards;
- acquiring and reviewing the report package prepared by the auditor of the associates (i.e., the component auditor), and examination of documents to support the existence and valuation of significant assets and transactions of certain associates;
- ensuring proper equity accounting was carried out during the year by looking at the post-acquisition change in the Group's share of net assets of the associates;
- assessing the adequacy of the disclosures presented within the consolidated financial statements to ensure that they are in accordance with the relevant financial reporting standards; and,
- evaluating the reasonableness of management's assumptions and estimates used in determining the recoverable amounts of the investments in associates, which includes determining the fair value of properties and other assets held by the associates.

***Other Information***

Management is responsible for the other information. The other information comprises the information included in the Group's Securities and Exchange Commission (SEC) Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2021, 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, 2021 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 PFRS, 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 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 consolidated 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 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's 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 Anthony L. Ng.

**PUNONGBAYAN & ARAULLO**



**By: Anthony L. Ng**  
Partner

CPA Reg. No. 0109764  
TIN 230-169-270  
PTR No. 8852341, January 3, 2022, Makati City  
SEC Group A Accreditation  
Partner - No. 109764-SEC (until Dec. 31, 2023)  
Firm - No. 0002 (until Dec. 31, 2024)  
BIR AN 08-002511-038-2019 (until Sept. 4, 2022)  
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Aug. 27, 2024)

March 29, 2022

**SBS PHILIPPINES CORPORATION AND SUBSIDIARIES**  
*(A Subsidiary of Anesys Holdings Corporation)*  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2021 AND 2020**  
*(Amounts in Philippine Pesos)*

	Notes	2021	2020
<b><u>A S S E T S</u></b>			
<b>CURRENT ASSETS</b>			
Cash	4	P 250,220,189	P 238,420,167
Trade and other receivables – net	5	456,318,578	723,874,428
Inventories – net	6	776,372,902	894,472,936
Prepayments and other current assets	8	133,668,518	659,251,620
Total Current Assets		<u>1,616,580,187</u>	<u>2,516,019,151</u>
<b>NON-CURRENT ASSETS</b>			
Investments in associates	7	2,843,727,038	2,905,295,267
Property and equipment – net	9	43,171,978	12,879,597
Right-of-use assets – net	10	25,732,891	51,465,782
Investment properties – net	11	625,700,346	625,700,346
Deferred tax assets – net	20	1,479,920	2,403,246
Other non-current assets – net	8	2,768,065,456	2,105,546,724
Total Non-current Assets		<u>6,307,877,629</u>	<u>5,703,290,962</u>
<b>ASSETS HELD FOR SALE</b>	12	<u>-</u>	<u>551,177,822</u>
<b>TOTAL ASSETS</b>		<u><b>P 7,924,457,816</b></u>	<u><b>P 8,770,487,935</b></u>
<b><u>LIABILITIES AND EQUITY</u></b>			
<b>CURRENT LIABILITIES</b>			
Loans payable	14	P 1,211,079,144	P 1,840,140,828
Trade and other payables	13	220,932,189	177,726,867
Lease liabilities	10	-	26,033,716
Income tax payable		3,994,726	-
Total Current Liabilities		<u>1,436,006,059</u>	<u>2,043,901,411</u>
<b>NON-CURRENT LIABILITIES</b>			
Loans payable	14	-	333,040,884
Security deposit		5,212,253	7,690,253
Post-employment defined benefit obligation	18	8,596,025	9,019,095
Total Non-current Liabilities		<u>13,808,278</u>	<u>349,750,232</u>
<b>LIABILITIES ATTRIBUTABLE TO ASSETS HELD FOR SALE</b>	12	<u>-</u>	<u>530,446</u>
Total Liabilities		<u>1,449,814,337</u>	<u>2,394,182,089</u>
<b>EQUITY</b>			
Equity attributable to the shareholders of Parent Company:	21		
Capital stock		1,549,999,999	1,549,999,999
Additional paid-in capital		2,242,794,207	2,242,794,207
Revaluation reserves		( 3,391,771 )	( 4,080,708 )
Retained earnings		1,953,138,955	1,800,500,834
		<u>5,742,541,390</u>	<u>5,589,214,332</u>
Non-controlling interest		<u>732,102,089</u>	<u>787,091,514</u>
Total Equity		<u>6,474,643,479</u>	<u>6,376,305,846</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<u><b>P 7,924,457,816</b></u>	<u><b>P 8,770,487,935</b></u>

*See Notes to Consolidated Financial Statements.*

**SBS PHILIPPINES CORPORATION AND SUBSIDIARIES**  
*(A Subsidiary of Anesy Holdings Corporation)*  
**CONSOLIDATED STATEMENTS OF PROFIT OR LOSS**  
**FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019**  
*(Amounts in Philippine Pesos)*

	Notes	2021	2020	2019
<b>REVENUES</b>	27			
Sale of goods		P 817,548,037	P 909,307,222	P 1,199,851,267
Consultancy income		<u>1,339,286</u>	<u>44,642,857</u>	<u>61,160,714</u>
		<u>818,887,323</u>	<u>953,950,079</u>	<u>1,261,011,981</u>
<b>COST OF SALES AND SERVICES</b>	15			
Cost of goods sold		531,941,367	634,243,432	885,196,138
Cost of services		<u>1,087,827</u>	<u>600,000</u>	<u>2,400,000</u>
		<u>533,029,194</u>	<u>634,843,432</u>	<u>887,596,138</u>
<b>GROSS PROFIT</b>		<u>285,858,129</u>	<u>319,106,647</u>	<u>373,415,843</u>
<b>OTHER OPERATING INCOME (EXPENSES)</b>				
Other operating expenses	15	( 161,596,055 )	( 170,300,120 )	( 232,254,323 )
Other operating income	16	<u>30,526,183</u>	<u>39,086,006</u>	<u>37,481,898</u>
		<u>( 131,069,872 )</u>	<u>( 131,214,114 )</u>	<u>( 194,772,425 )</u>
<b>OPERATING PROFIT</b>		154,788,257	187,892,533	178,643,418
<b>GAIN ON SALE AND DECONSOLIDATION OF SUBSIDIARY</b>	12	311,965,240	-	-
<b>FINANCE COSTS</b>	17	( 133,136,158 )	( 123,861,556 )	( 135,006,587 )
<b>EQUITY IN NET INCOME (LOSSES) OF ASSOCIATES</b>	7	( 91,860,729 )	674,805,412	( 19,792,302 )
<b>FINANCE INCOME</b>	17	8,832,473	6,752,622	21,391,563
<b>GAIN ON SALE OF INVESTMENT PROPERTIES</b>	11	<u>-</u>	<u>-</u>	<u>2,493,634</u>
<b>PROFIT BEFORE TAX</b>		250,589,083	745,589,011	47,729,726
<b>TAX EXPENSE</b>	20	<u>59,962,917</u>	<u>30,060,187</u>	<u>6,782,111</u>
<b>NET PROFIT FROM CONTINUING OPERATIONS</b>		190,626,166	715,528,824	40,947,615
<b>NET LOSS AFTER TAX FROM DISCONTINUED OPERATIONS</b>	12	( 10,191,383 )	( 15,356,858 )	( 15,978,423 )
<b>NET PROFIT FOR THE YEAR</b>		<u>P 180,434,783</u>	<u>P 700,171,966</u>	<u>P 24,969,192</u>
Attributable to:				
Shareholders of the Parent Company		P 186,738,121	P 708,676,091	P 18,757,706
Non-controlling interest		<u>( 6,303,338 )</u>	<u>( 8,504,125 )</u>	<u>6,211,486</u>
		<u>P 180,434,783</u>	<u>P 700,171,966</u>	<u>P 24,969,192</u>
<b>EARNINGS PER SHARE</b>	21			
<b>Basic and diluted earnings (loss) per share</b>				
From continuing operations		P 0.120	P 0.457	P 0.012
From discontinued operations		<u>( 0.007 )</u>	<u>( 0.010 )</u>	<u>( 0.010 )</u>
		<u>P 0.114</u>	<u>P 0.447</u>	<u>P 0.002</u>

*See Notes to Consolidated Financial Statements.*

**SBS PHILIPPINES CORPORATION AND SUBSIDIARIES**  
*(A Subsidiary of Anesys Holdings Corporation)*  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019**  
*(Amounts in Philippine Pesos)*

	Notes	2021	2020	2019
<b>NET PROFIT</b>		<b>P 180,434,783</b>	P 700,171,966	P 24,969,192
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
Item that will not be reclassified subsequently to profit or loss				
Remeasurements of post-employment defined benefit plan	18	981,736	( 2,301,447 )	157,623
Tax income (expense)	20	( 536,913 )	690,434	( 47,287 )
<b>Other Comprehensive Income (Loss) – net of tax</b>		<b>444,823</b>	( 1,611,013 )	110,336
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>P 180,879,606</b>	P 698,560,953	P 25,079,528
Attributable to:				
Shareholders of the Parent Company		P 187,427,058	P 707,065,078	P 18,868,042
Non-controlling interest		( 6,547,452 )	( 8,504,125 )	6,211,486
		<b>P 180,879,606</b>	P 698,560,953	P 25,079,528

*See Notes to Consolidated Financial Statements.*

**SBS PHILIPPINES CORPORATION AND SUBSIDIARIES**  
*(A Subsidiary of Anesys Holdings Corporation)*  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019**  
*(Amounts in Philippine Pesos)*

	Attributable to Shareholders of Parent Company					Non-controlling	
	Capital Stock (see Note 21)	Additional Paid-in Capital (see Note 21)	Revaluation Reserves (see Note 21)	Retained Earnings (see Note 21)	Total	Interest (see Note 21)	Total
Balance at January 1, 2021	P 1,549,999,999	P 2,242,794,207	( P 4,080,708 )	P 1,800,500,834	P 5,589,214,332	P 787,091,514	P 6,376,305,846
Cash dividend during the year	-	-	-	( 34,100,000 )	( 34,100,000 )	-	( 34,100,000 )
Sale and deconsolidation of subsidiary	-	-	-	-	-	( 48,441,973 )	( 48,441,973 )
Total comprehensive income (loss) for the year	-	-	688,937	186,738,121	187,427,058	( 6,547,452 )	180,879,606
Balance at December 31, 2021	<b><u>P 1,549,999,999</u></b>	<b><u>P 2,242,794,207</u></b>	<b><u>( P 3,391,771 )</u></b>	<b><u>P 1,953,138,955</u></b>	<b><u>P 5,742,541,390</u></b>	<b><u>P 732,102,089</u></b>	<b><u>P 6,474,643,479</u></b>
Balance at January 1, 2020	P 1,549,999,999	P 2,242,794,207	( P 2,469,695 )	P 1,091,824,743	P 4,882,149,254	P 795,595,639	P 5,677,744,893
Total comprehensive income (loss) for the year	-	-	( 1,611,013 )	708,676,091	707,065,078	( 8,504,125 )	698,560,953
Balance at December 31, 2020	<b><u>P 1,549,999,999</u></b>	<b><u>P 2,242,794,207</u></b>	<b><u>( P 4,080,708 )</u></b>	<b><u>P 1,800,500,834</u></b>	<b><u>P 5,589,214,332</u></b>	<b><u>P 787,091,514</u></b>	<b><u>P 6,376,305,846</u></b>
Balance at January 1, 2019	P 1,549,999,999	P 2,242,794,207	( P 2,580,031 )	P 1,107,167,037	P 4,897,381,212	P 58,341,303	P 4,955,722,515
Cash dividend during the year	-	-	-	( 34,100,000 )	( 34,100,000 )	-	( 34,100,000 )
Additional investments from non-controlling interest during the year	-	-	-	-	-	731,042,850	731,042,850
Total comprehensive income for the year	-	-	110,336	18,757,706	18,868,042	6,211,486	25,079,528
Balance at December 31, 2019	<b><u>P 1,549,999,999</u></b>	<b><u>P 2,242,794,207</u></b>	<b><u>( P 2,469,695 )</u></b>	<b><u>P 1,091,824,743</u></b>	<b><u>P 4,882,149,254</u></b>	<b><u>P 795,595,639</u></b>	<b><u>P 5,677,744,893</u></b>

*See Notes to Consolidated Financial Statements.*



**SBS PHILIPPINES CORPORATION AND SUBSIDIARIES**  
**(A Subsidiary of Anesys Holdings Corporation)**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019**  
**(Amounts in Philippine Pesos)**

	Notes	2021	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit before tax from continuing operations		P 250,589,083	P 745,589,011	P 47,729,726
Loss before tax from discontinued operations	12	( 9,136,833 )	( 21,624,649 )	( 22,831,402 )
Adjustments for:				
Gain on sale and deconsolidation of subsidiary	12	( 311,965,240 )	-	-
Finance costs	17	133,136,158	123,861,556	135,006,587
Equity in net losses (income) of associates	7	91,860,729	( 674,805,412 )	19,792,302
Depreciation and amortization	8, 9, 10	31,110,997	30,835,694	46,698,120
Unrealized foreign currency losses (gains) - net		( 3,878,747 )	( 3,933,515 )	4,246,068
Interest income	4, 17	( 237,410 )	( 523,413 )	( 15,850,780 )
Other adjustments attributable to assets held for sale		-	-	16,012,437
Gain on sale of investment properties	11	-	-	( 2,493,634 )
Gain on redemption of investment securities at amortized cost	17	-	-	( 489,480 )
Operating profit before working capital changes		181,478,737	199,399,272	227,819,944
Decrease (increase) in trade and other receivables		( 3,244,150 )	91,638,814	109,264,269
Decrease in inventories		118,100,034	109,874,719	71,218,863
Decrease (increase) in prepayments and other assets		28,039,018	72,015,959	( 309,479,868 )
Increase in trade and other payables		40,727,322	43,876,263	101,237,166
Increase (decrease) in post-employment defined benefit obligation		225,861	( 128,176 )	377,614
Cash generated from operations		365,326,823	516,676,851	200,437,988
Cash paid for income taxes		( 42,149,860 )	( 16,262,531 )	( 14,479,770 )
Net Cash From Operating Activities		323,176,963	500,414,320	185,958,218
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Proceeds from sale of disposal group	12	805,051,456	-	-
Advance payments for investment and asset acquisitions	8	( 278,405,200 )	-	( 1,319,862,300 )
Collection of deposits made on behalf of an associate	5, 19	270,800,000	-	139,200,000
Refund from cancellation of investment subscription	8	60,000,000	-	-
Acquisition of property and equipment	9	( 35,103,135 )	( 4,099,791 )	( 1,883,012 )
Acquisition of investments in associates	7	( 25,575,000 )	( 107,500,000 )	( 842,647,499 )
Acquisition of computer software	8	( 783,587 )	( 935,556 )	( 1,480,326 )
Interest received		237,410	523,413	15,850,780
Proceeds from redemption of investment securities at amortized cost	17	-	-	244,740,000
Proceeds from sale of investment properties	11	-	-	6,719,120
Net Cash From (Used in) Investing Activities		796,221,944	( 112,011,934 )	( 1,759,363,237 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Settlement of loans	14	( 1,068,000,000 )	( 400,000,000 )	( 850,000,000 )
Proceeds from availment of loans	14	105,000,000	-	1,045,000,000
Interest paid		( 87,413,373 )	( 119,705,977 )	( 115,470,619 )
Dividends paid	21	( 34,100,000 )	-	( 34,100,000 )
Payment of lease liabilities	10	( 26,964,259 )	( 26,965,095 )	( 43,036,524 )
Cash infusion from stockholders		-	-	731,042,849
Net Cash From (Used in) Financing Activities		( 1,111,477,632 )	( 546,671,072 )	733,435,706
<b>EFFECTS OF FOREIGN EXCHANGE RATE CHANGES ON CASH</b>		<b>3,878,747</b>	<b>1,072,198</b>	<b>( 4,246,068 )</b>
<b>NET INCREASE (DECREASE) IN CASH</b>		<b>11,800,022</b>	<b>( 157,196,488 )</b>	<b>( 844,215,381 )</b>
<b>CASH AT BEGINNING OF YEAR</b>		<b>238,420,167</b>	<b>395,616,655</b>	<b>1,239,832,036</b>
<b>CASH AT END OF YEAR</b>		<b>P 250,220,189</b>	<b>P 238,420,167</b>	<b>P 395,616,655</b>

**Supplemental Information on Non-cash Financing and Investing Activities:**

- (1) In 2021, 2020, and 2019, the Company amortized debt issue cost on Loans payable amounting to P8.4 million, P1.4 million, and P3.4 million, respectively (see Note 14).
- (2) In 2021, the Group reclassified certain investment subscription amounting to P4.7 million as additions to investment in associates (see Note 8). There was no similar transaction in 2020 and 2019.
- (3) In 2020, as a result of the Group's decision to sell its ownership interest in Lence Holdings Corporation (LHC), the assets, liabilities, income and expenses of LHC are presented separately in the 2020 consolidated statement of financial position and 2020 and 2019 consolidated statements of profit or loss (see Note 12).
- (4) In 2019, the Group recognized right-of-use assets and lease liabilities amounting to P102.9 million and P68.1 million, respectively. In 2020, the Group recognized additional lease liabilities amounting to P6.7 million upon reaching an agreement for refund equivalent to three months' worth of rent (see Note 10).
- (5) In 2019, the Group also applied investment subscriptions paid in 2018 amounting to P43.2 million in its acquisition of shares of certain associates (see Notes 7 and 8).

*See Notes to Consolidated Financial Statements.*

**SBS PHILIPPINES CORPORATION AND SUBSIDIARIES**  
**(A Subsidiary of Anesy Holdings Corporation)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021, 2020 AND 2019**  
**(Amounts in Philippine Pesos)**

**1. GENERAL INFORMATION**

**1.1 Corporate Information**

SBS Philippines Corporation (the Parent Company) was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on July 17, 2001. The Parent Company is currently engaged in trading of goods and buying, selling, distributing and marketing at wholesale goods such as chemicals, fertilizers, foodstuffs, agricultural products feed ingredients, industrial products and medical devices. Its registered office address and principal place of business is No. 10 Resthaven Street, San Francisco Del Monte, Quezon City.

The Parent Company's common shares are listed and traded in the Philippine Stock Exchange (PSE) beginning August 10, 2015 (see Note 21.1).

The Parent Company is a subsidiary of Anesy Holdings Corporation (Anesy or the Ultimate Parent Company). Anesy is engaged in the business of holding, owning and acquiring shares of stocks, bonds and other investments in any and all types of business enterprise engaged in any productive and commercial activity. Its registered office, which is also its principal place of business, is located at No. 37 Jalan Luna St., San Francisco Del Monte, Quezon City.

As of December 31, 2021 and 2020, the Parent Company and its subsidiaries (the Group) holds interest in various entities as enumerated below and in the succeeding page.

	Explanatory	Percentage of	
	Notes	Ownership	
		2021	2020
<b>Subsidiaries:</b>			
SBS Holdings and Enterprises Corporation (SBS Holdings or SHEC)	(a)	44.62%	44.62%
Lence Holdings Corporation (LHC)	(d)	-	76.16%
<b>Associates:</b>			
SMYTE Philippines Holdings Corporation (SPHC)	(b)	38.02%	44.95%
Cleon Phils. Holding Corporation (CPHC)	(b)	37.25%	37.25%
Lakerfield Phils. Holding Corporation (LPHC)	(b)	37.00%	37.00%
Ayschester Holdings Corporation (AHC)	(b)	25.00%	25.00%
I-Bonding Holdings Corporation (IBHC)	(c)	17.00%	17.00%
Goldchester Holdings Corporation (GHC)	(c)	16.90%	16.90%
Berny Philippines Holdings Corp (BPHC)	(c)	13.31%	13.31%

	Explanatory	Percentage of	
	Notes	Ownership	
		2021	2020
<b>Associates of SBS Holdings:</b>			
Milia Holdings Corporation (MHC)	(b)	29.00%	29.00%
Justfields Holdings Corporation (JuHC)	(b)	29.00%	29.00%
Orientalgems Holdings Corporation (OHC)	(b)	29.00%	29.00%
I-Care Holdings Corporation (ICHC)	(b)	25.00%	25.00%
Apschester Holdings Corporation (APHC)	(b)	22.00%	22.00%
Aspar Holdings Corporation (ArHC)	(b)	22.00%	22.00%
Joine Holdings Corporation (JHC)	(b)	22.00%	22.00%
Namia Holdings Corporation (NHC)	(b)	22.00%	22.00%
Syner Holdings Corporation (SyHC)	(b)	22.00%	22.00%
Urman Holdings Corporation (UHC)	(b)	22.00%	22.00%
Scott Holdings Corporation (SHC)	(c)	17.50%	17.50%
Aresa Holdings Corporation (ARHC)	(c)	17.00%	17.00%
Asida Holdings Corporation (ASHC)	(c)	17.00%	17.00%
Couts Holdings Corporation (CHC)	(c)	17.00%	17.00%
Ineda Holdings Corporation (IHC)	(c)	17.00%	17.00%
Mansfield Holdings Corporation (MFHC)	(c)	17.00%	17.00%
Morechester Philiplippines Inc. (MPI)	(c)	17.00%	17.00%
Joune Holding Limited (JoHL)	(c)	5.00%	5.00%

Explanatory Notes:

- (a) SBS Holdings is a stock corporation with authorized capital stock of 5,500,000,000 shares with a par value of P1 per share as at its incorporation. In December 2016, the Parent Company subscribed 311,897 common shares of then newly incorporated SBS Holdings. Thereafter, the Parent Company subscribed an additional 1,574,687,500 and 425,312,500 common shares on February 22, 2017 and March 27, 2018, respectively, for a total stockholding of 2,000,311,897 common shares representing 99% ownership of SBS Holdings' outstanding capital stock. On November 18, 2019, the SEC approved the increase in authorized capital stock of SBS Holdings to 17,290,000,000 shares with a par value of P1. In 2020, SBS Holdings issued 3,053,437,500 common shares from the unissued authorized capital stock on a subscription basis, of which the Parent Company subscribed 254,688,103 common shares, bringing the Parent Company's total stockholding to 2,255,000,000, representing 45% ownership of SBS Holdings' outstanding capital stock as of December 31, 2020 and 2021. The issuance of authorized capital stock resulted in the dilution of the Parent Company's equity ownership in SBS Holdings. However, management assessed that SBS Holdings remains as a subsidiary of the Parent Company on the basis that certain members of the Parent Company's Board of Directors (BOD) also hold key positions in SBS Holdings. Further, as of December 31, 2021 and 2020, the next most significant stockholder of the subsidiary is the Ultimate Parent Company. SBS Holdings serves principally as a holding company for entities with interests in real estate and other property related businesses.
- (b) The Group subscribed common shares of various companies, representing significant influence on these companies. These associates own or will own real estate properties and are expected to engage in property-related businesses.

- (c) The Group subscribed common shares to several companies, in which it holds less than 20% ownership, however, even with less than 20% ownership, these companies retain to be associates of the Group on the basis that several members of the Group's BOD and officers hold significant influence, but not control, over the operations and management decisions of these associates.
- (d) LHC is a stock corporation with authorized capital stock of 137,000,000 shares with a par value of P1 per share. On November 16, 2017, the Parent Company and SBS Holdings subscribed 37,055,000 and 14,261,400 common shares, respectively, representing a combined 65% ownership interest in the newly incorporated LHC. On February 5, 2018, the Parent Company and SBS Holdings subscribed an additional common share, bringing the Group's total subscribed shares to 123,330,000 common shares, representing a combined 90% interest in LHC. In 2019, due to the dilution of the Parent Company's shares in SBS Holdings, the Group's effective ownership in LHC was reduced to 76% as of December 31, 2019. As of December 31, 2019, LHC has total paid-up capital of P598.0 million, including additional paid-in capital amounting to P461.0 million. In 2020, the Group assessed that the investment in LHC will no longer be recovered through continuous operations but rather through sale. Accordingly, the related assets and liabilities of LHC as of December 31, 2020 were presented as Assets Held for Sale and Liabilities Attributable to Assets Held for Sale, respectively, in the 2020 consolidated statement of financial position while the results of operations of LHC is presented as Net Loss After Tax from Discontinued Operations in the 2020 and 2019 consolidated statements of profit or loss. On June 17, 2021, the Parent Company and SBS Holdings sold all its shareholdings in LHC to a third party (see Note 12).

As of December 31, 2021, there is no significant change as to the percentage of ownership from the Group's existing associates. Meanwhile, in 2020, new investment was made to OHC to which the Group holds 29% ownership to the said entity (see Note 7).

The primary purpose of the associates is 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. Except for JoHL, all of the associates are incorporated in the Philippines.

The registered office address and principal place of business of the subsidiaries and associates is the same as that of the Parent Company, except for the following:

- LHC and LPHC – No. 10 Miller St., Brgy. Bungad, San Francisco Del Monte, Quezon City
- CPHC – No. 195 Florida St., Brgy. Wack Wack, Mandaluyong City,
- AHC – No. 58-B Sauyo Rd. Barrio Sauyo Novaliches, Quezon City,
- IBHC and ARHC – No. 195 EDSA, Brgy. Wack-Wack, Greenhills East, Mandaluyong City
- SPHC – No. 325 Ortigas Avenue, Brgy. Wack-Wack, Mandaluyong City
- ASHC, GHC, JHC, and MPI – No. 37 Judge Juan Luna St., San Francisco Del Monte, Quezon City
- OHC – No. 64 General Luis St., Bo. Capri, Novaliches, Quezon City
- APHC – Unit 2002 La Granda Mansion, Gandara St., Sta. Cruz, Manila
- MHC – SW-R124 Goldloop Condo Tower 1, No. 7 Amber St., Brgy. Orambo, Quezon City
- SHC – No. 15 Narcissus Del Nacia St., San Francisco Del Monte, Quezon City
- UHC – No. 61 Dangay St., Brgy. Veterans Village, Quezon City
- ArHC and BPHC – No. 1432 Cavite Cor. Severino Reyes St., Sta. Cruz, Manila
- IHC, SyHC, and NHC – No. 1012 EDSA Ramon Magsaysay, Quezon City, Metro Manila
- CHC – No. 192 EDSA Wack-Wack Greenhills, Mandaluyong City
- JoHL – Room B, 19/F, Wing Hang Insurance Building, No. 11 Wing Kut Street, Central, Hong Kong

### **1.2 Continuing Impact of COVID-19 Pandemic on Group's Business**

The COVID-19 pandemic started to become widespread in the Philippines in early March 2020 and its impact has been continuing until the date of the approval of these financial statements. The measures taken by the government to contain the virus have affected economic conditions and the Group's business operations.

The continuing impact of the COVID-19 pandemic to the Group's business resulted to the following:

- decline in total revenues in 2021 by 14% compared to that of 2020;
- decline in total purchases in 2021 by 21% compared to that of 2020;
- recognition of impairment of inventories amounting to P17.7 million and P28.8 million in 2021 and 2020, respectively; and,
- incurred additional administrative expenses to ensure health and safety of its employees and customers such as the frequent disinfection of facilities and the provision of protective equipment such as face masks, face shields and alcohol.

In response to this matter, the Group has taken the following actions in 2021 and 2020:

- pursuant to Section 4 (uu) of Republic Act (RA) No. 11494, *Bayanihan to Recover As One Act*, the Group was able to availed of the 60-day grace period granted by banks for the payment of all outstanding loans falling due, or any part thereof, on or before December 31, 2020, without incurring interest on interests, penalties, fees, or other charges;
- ensured timely billings to the customers to have a sufficient cash flows;
- adopted a flexible work schedule or arrangement to lessen exposure of the employees to the virus;
- approved a mid-term strategy expanding the industry coverage to support revenue recovery in 2021 and thereafter;
- implemented safety measures and activated business continuity plan; and,
- implemented cost savings measures such as reduction in transportation and travel expense, representation expense, business meeting expense and sought relief in the payment of the annual consultancy and internal audit fees to manage the Group's cash flows.

Management will continue to take actions to continually improve the operations as the need arises. Based on the foregoing improvements, management projects that the Group would continue to report positive results of operations and would remain liquid to meet current obligations as they fall due. Accordingly, management has not determined material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern due to the effects of the pandemic.

### **1.3 Approval of Financial Statements**

The consolidated financial statements of the Group as of and for the year ended December 31, 2021 (including the comparative consolidated financial statements as of December 31, 2020 and for the years ended December 31, 2020 and 2019) were authorized for issue by the Parent Company's BOD on March 29, 2022.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### 2.1 *Basis of Preparation of Consolidated Financial Statements*

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

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

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

#### (b) *Presentation of Consolidated Financial Statements*

The consolidated financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Group presents consolidated statement of comprehensive income separate from the consolidated statement of profit or loss.

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

#### (c) *Functional and Presentation Currency*

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

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



## 2.2 Adoption of Amended PFRS

### (a) Effective in 2021 that are Relevant to the Group

The Group adopted for the first time the following amendments to existing standards, which are mandatorily effective for annual periods beginning on or after January 1, 2021:

PFRS 9 and PFRS 7, and	
PFRS 16 (Amendments) :	Interest Rate Benchmark Reform Phase 2 – Financial Instruments, Financial Instruments: Disclosures, Leases
PFRS 16 (Amendments) :	Leases – COVID-19-Related Rent Concessions

Discussed below are the relevant information about these amendments.

- (i) PFRS 9 (Amendments), *Financial Instruments*, PFRS 7 (Amendments), *Financial Instruments: Disclosures*, and PFRS 16 (Amendments), *Leases – Interest Rate Benchmark Reform Phase 2*. The amendments address issues that may affect financial reporting during the interest rate benchmark reform, including the effect of changes to contractual cash flows or hedging relationships resulting from the replacement of the London Interbank Offered Rate (LIBOR) with alternative benchmark rates. The Phase 2 amendments have no impact to the Group's consolidated financial statements as the Group did not have any financial instruments subject to LIBOR.
- (ii) PFRS 16 (Amendments), *Leases – COVID-19-Related Rent Concessions* (effective from June 30, 2020). The amendments permit lessees, as a practical expedient, not to assess whether particular rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and instead to account for those rent concessions as if they are not lease modifications. The application of these amendments had no significant impact to the Group's consolidated financial statements as the Group did not receive any rent concession from its lessors in 2020 and 2021.

### (b) Effective Subsequent to 2021 but not Adopted Early

There are pronouncements to existing standards effective for annual periods subsequent to 2021, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, none of these are expected to have significant impact on the Group's consolidated financial statements.

- (i) PFRS 16, *Leases – COVID-19-Related Rent Concessions beyond June 30, 2021* (effective from January 1, 2022)
- (ii) PAS 16 (Amendments), *Property, Plant and Equipment – Proceeds Before Intended Use* (effective from January 1, 2022)
- (iii) PAS 37 (Amendments), *Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract* (effective from January 1, 2022)

- (iv) Annual Improvements to PFRS 2018-2020 Cycle. Among the improvements, the following amendments, which are effective from January 1, 2022, are relevant to the Company:
  - a. PFRS 9 (Amendments), *Financial Instruments – Fees in the '10 per cent' Test for Derecognition of Liabilities*
  - b. Illustrative Examples Accompanying PFRS 16, *Leases – Lease Incentives*
- (v) PAS 1 (Amendments), *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current* (effective from January 1, 2023)
- (vi) PAS 1 (Amendments), *Presentation of Financial Statements – Disclosure of Accounting Policies* (effective from January 1, 2023)
- (vii) PAS 8 (Amendments), *Accounting Estimates – Definition of Accounting Estimates* (effective from January 1, 2023)
- (viii) PAS 12 (Amendments), *Income Taxes – Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction* (effective from January 1, 2023)
- (ix) PFRS 10 (Amendments), *Consolidated Financial Statements*, and PAS 28 (Amendments), *Investments in Associates and Joint Ventures – Sale or Contribution of Assets Between an Investor and its Associates or Joint Venture* (effective date deferred indefinitely)

### **2.3 Basis for Consolidation**

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

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

The Parent Company accounts for its investments in subsidiaries, associates and non-controlling interests as follows:

#### **(a) Investments in Subsidiaries**

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

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

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

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

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

*(b) Investments in Associates*

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

Acquired investments in associates are subject to the purchase method. The purchase method involves the recognition of the acquiree's identifiable assets and liabilities, including contingent liabilities, regardless of whether they were recorded in the financial statements prior to acquisition. Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the identifiable net assets of the acquiree at the date of acquisition. Any goodwill or fair value adjustment attributable to the Group's share in the associate is included in the amount recognized as investment in associates.

All subsequent changes to the ownership interest in the equity of the associates are recognized in the Group's carrying amount of the investments. Changes resulting from the profit or loss generated by the associates are credited or charged against the Equity in Net Income (Losses) of Associates in the consolidated statement of profit or loss.

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

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

(c) *Transactions with Non-controlling Interests*

The Group's transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transaction with the owners of the Group in their capacity as owners. The difference between the fair value of any consideration paid and the relevant share acquired of the carrying value of the net assets of the subsidiary is recognized in equity. Disposals of equity investments to non-controlling interests result in gains and losses for the Group that are also recognized in equity.

When the Group ceases to have control over a subsidiary, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

## **2.4 Business Combination**

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

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition, except for lease liabilities which are measured based on the present value of the remaining lease payments as if the acquired lease were a new lease at acquisition date and right-of-use assets which are measured at an amount equal to the recognized lease liability, adjusted to reflect favorable or unfavorable lease terms compared with market terms. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed (see Note 2.17).

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

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

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

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

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

## **2.5 Acquisition of Asset**

Acquisition of interest in an entity that holds investment property which does not constitute a business is accounted for as an asset acquisition. A business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members and participant. Under the asset purchase accounting, the purchase costs are allocated to identifiable assets and liabilities based on relative fair values of individual items; goodwill or gain on bargain purchase is not recognized, and transaction costs are capitalized.

## **2.6 Financial Instruments**

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the financial instrument.

### **(a) Financial Assets**

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

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

The classification and measurement of financial assets are driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Currently, all of the Group's financial assets are classified as financial assets at amortized cost.

Financial assets are measured at amortized cost if both of the following conditions are met:

- the asset is held within the Group's business model whose objective is to hold financial assets in order to collect contractual cash flows (hold to collect); and,
- the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

Except for trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with PFRS 15, *Revenue from Contracts with Customers*, all financial assets meeting these criteria are measured initially at fair value plus transaction costs. These are subsequently measured at amortized cost using the effective interest method, less allowance for expected credit loss (ECL).

The Group's financial assets at amortized cost are presented in the statement of financial position as Cash, Trade and Other Receivables and Refundable deposits (included as part of Prepayments and Other Current Assets and Other Non-current Assets accounts).

For purposes of cash flows reporting and presentation, Cash includes cash on hand and in banks. Cash in banks pertain to demand deposits maintained in local banks that are unrestricted, readily available for use in the Group's operations and generally earning interest based on daily bank deposit rates.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of the financial assets except for those that are subsequently identified as credit-impaired. For credit-impaired financial assets at amortized cost, the effective interest rate is applied to the net carrying amount of the financial assets (after deduction of the loss allowance). The interest earned is recognized in the consolidated statement of profit or loss as part of Finance Income.

Dividends earned are recognized in profit or loss as part of Finance Income when the Group's right to receive dividends is established, it is probable that the economic benefits associated with the dividend will flow to the Group, and the amount of the dividend can be measured reliably, unless the dividends clearly represent recovery of or a part of the cost of the investment.

(i) *Impairment of Financial Assets*

At the end of the reporting period, the Group assesses its ECL on a forward-looking basis associated with its financial assets carried at amortized cost. The measurement of ECL involves consideration of broader range of information in assessing credit risk and measuring ECL, including past events, current conditions, reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets.

The Group applies the simplified approach in measuring ECL for trade and other receivables (excluding advances to employees) and refundable deposits, which uses a lifetime expected loss allowance for all trade and other receivables and refundable deposits. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial assets. To calculate the ECL, the Group uses its historical experience, external indicators and forward-looking information using a provision matrix. The Group also assesses impairment of trade receivables on a collective basis as they possess shared credit risk characteristics, and have been grouped based on the days past due [see Note 23.2(b)]. Meanwhile, impairment of refundable deposits is assessed based on potential liquidity of counterparties based on available financial information.

For investment securities measured at amortized cost, the allowance for credit losses is based on the ECL associated with the probability of default of a financial instrument in the next 12 months, unless there has been a significant increase in credit risk since the origination of the financial asset, in such case, a lifetime ECL for a purchased or originated credit impaired, the allowance for credit losses is based on the change in the ECL over the life of the asset. The Group recognizes a loss allowance for such losses at each reporting date.



The key elements used in the calculation of ECL are as follows:

- *Probability of default* – It is an estimate of likelihood of a counterparty defaulting at its financial obligation over a given time horizon, either over the next 12 months or the remaining lifetime of the obligation.
- *Loss given default* – It is an estimate of loss arising in case where a default occurs at a given time. It is based on the difference between the contractual cash flows of a financial instrument due from a counterparty and those that the Group would expect to receive, including the realization of any collateral or effect of any credit enhancement.
- *Exposure at default* – It represents the gross carrying amount of the financial instruments in the event of default which pertains to its amortized cost.

Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

The amount of ECL required to be recognized during the year, if any, is presented as Impairment loss on receivables under Other Operating Expenses. Reversal of allowance, if applicable, is recognized in the consolidated statement of profit or loss as part of Other Operating Income.

(ii) *Derecognition of Financial Assets*

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

(b) *Financial Liabilities*

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

Loans payable and trust receipts payable (presented as part of Trade and Other Payables) were raised for working capital requirements. Loans payable are raised for support of short-term and long-term funding of operations and are recognized initially at the transaction price. Loans payable are subsequently measured at amortized cost. Finance charges are charged to profit or loss on an accrual basis using the effective interest method and are added to the carrying amount of the instrument to the extent that these are not settled in the period in which they arise.

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

Financial liabilities are classified as current liabilities if payment is due to be settled within one year or less after the end of the reporting period (or in the normal operating cycle of the business, if longer), or the Group does not have an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period. Otherwise, these are presented as non-current liabilities.

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

(c) *Offsetting Financial Instruments*

Financial assets and financial liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the consolidated statement of financial position when the Group currently has legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on future event.

It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and must be legally enforceable for both entity and all counterparties to the financial instruments.

**2.7 *Inventories***

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

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

**2.8 *Prepayments and Other Assets***

Prepayments and other assets, which are generally non-financial assets, pertain to other resources controlled by the Group as a result of past events. They are recognized at cost in the consolidated financial statements when it is probable that the future economic benefits will flow to the Group and the asset has a cost or value that can be measured reliably. These are subsequently charged to profit or loss as utilized or reclassified to another asset account if capitalizable.

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

An asset's carrying amount is written-down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.17).

## **2.9 Property and Equipment**

Property and equipment are initially recognized at cost and subsequently carried at cost less accumulated depreciation, amortization and any impairment in value.

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

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

Leasehold improvements	13 years
Transportation and other equipment	5 to 7 years
Furniture and fixtures	3 years

Leasehold improvements are amortized over the asset's estimated useful lives or applicable lease terms, whichever is shorter.

Construction-in-progress pertains to the accumulated costs of putting up assets, additions or improvements. Cost is recognized when materials purchased and services performed in relation to construction have been delivered or rendered. When the asset becomes available for use, the accumulated cost is transferred to the appropriate property and equipment account, and depreciation is recognized based on the estimated useful life of such asset. The account is not depreciated until such time that the assets are completed and available for use.

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.17).

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

## **2.10 Intangible Asset**

Intangible asset, which is presented as part of Other Non-current Assets – net, pertains to acquired computer software accounted for under the cost model. The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the other considerations given up to acquire an asset at the time of its acquisition. Capitalized costs are amortized on a straight-line basis over the estimated useful life of three years, as the life of the intangible asset is considered finite. Intangible asset is presented under Other Non-current Assets in Note 8. In addition, intangible assets are subject to impairment testing as described in Note 2.17.

Acquired computer software are capitalized on the basis of the costs incurred to acquire and install the specific software. Costs associated with maintaining computer software and those costs associated with research activities are recognized as expense in profit or loss as incurred.

When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset and is recognized in profit or loss.

### ***2.11 Investment Properties***

Investment properties are properties held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment properties are accounted for under the cost model and are measured initially at acquisition cost. These are subsequently carried at acquisition cost less accumulated depreciation and impairment losses, if any. The cost of the asset is comprised of its purchase price and directly attributable costs of preparing the asset for its intended use.

Investment properties pertaining to building and land improvement are depreciated using the straight-line method over the estimated useful life of 25 years.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.17).

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

### ***2.12 Non-current Assets Classified as Held for Sale and Discontinued Operations***

The Group classifies non-current assets as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets classified as held for sale are initially recognized at their carrying amount and are subsequently measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense. The Group shall recognize an impairment loss for any initial or subsequent write-down of the asset at fair value less cost to sell. Gain from any subsequent increase in fair value less cost to sell of an asset is recognized to the extent of the cumulative impairment loss previously recognized. Assets classified as held for sale are not subject to depreciation.

The criteria for held for sale classification is regarded as met only when the sale is highly probable, and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

A discontinued operation is a component of the Group that either has been disposed of, or is classified as held for sale. Profit or loss from discontinued operations comprises the post-tax profit or loss of discontinued operations and the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal group(s) constituting the discontinued operation (see Note 12). PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, requires the re-presentation of the net income after tax of a discontinued operation as a single line item in the consolidated statement of profit or loss for all applicable prior periods in the consolidated financial statements.

Assets, liabilities, income and expenses classified as held for sale and discontinued operations are presented separately in the consolidated statement of financial position and consolidated statement of profit or loss.

All other notes to the consolidated financial statements include amounts for continuing operations, unless indicated otherwise.

### **2.13 Provisions and Contingencies**

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

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

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

### **2.14 Revenue and Expense Recognition**

Revenue comprises revenue from sale of wholesale goods and from rendering of consultancy services.

To determine whether to recognize revenue, the Group follows a five-step process:

- (1) identifying the contract with a customer;
- (2) identifying the performance obligation;
- (3) determining the transaction price;
- (4) allocating the transaction price to the performance obligations; and,
- (5) recognizing revenue when/as performance obligations are satisfied.

The Group determines whether a contract with a customer exists by evaluating whether the following gating criteria are present:

- (i) the parties to the contract have approved the contract either in writing, orally or in accordance with other customary business practices;
- (ii) each party's rights regarding the services to be transferred or performed can be identified;
- (iii) the payment terms for the goods or services to be transferred or performed can be identified;
- (iv) the contract has commercial substance (i.e., the risk, timing or amount of the future cash flows is expected to change as a result of the contract); and,
- (v) collection of the consideration in exchange of the services is probable.

Revenue is recognized only when (or as) the Group satisfies a performance obligation by transferring control of the promised goods or services to a customer. The transfer of control can occur over time or at a point in time.

A performance obligation is satisfied at a point in time unless it meets one of the following criteria, in which case it is satisfied over time:

- (i) the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- (ii) the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; and,
- (iii) the Group's performance does not create an asset with an alternative use to the Group and the entity has an enforceable right to payment for performance completed to date.

The Group often enters into transactions involving the wholesale trade of goods such as chemicals, fertilizers, foodstuffs, agricultural products, feed ingredients, industrial products and medical devices. The Group also enters into transactions where the Group facilitates the execution and consummation of certain transactions involving related parties. The significant judgments used in determining the timing of satisfaction of performance obligation is disclosed in Note 3.1(b).

In addition, the following specific recognition criteria must also be met before revenue is recognized:

- (a) *Sale of goods* – Revenue is recognized as the control transfers at a point in time with the customer (i.e., when the goods have been shipped to the customers). Invoices for goods transferred are due upon receipt by the customer.
- (b) *Consultancy income* – Revenue is recognized over time in the amount for which the Group is entitled to in exchange for arranging and facilitating certain transactions entered into by related parties.

The Group recognizes a refund liability if the Group is required to refund the related purchase price of any returned goods. The refund liability is recognized with a corresponding adjustment to the revenues for the period. The Group also recognizes a right to return asset on the goods to be recovered from the customers with a corresponding adjustment to Cost of Goods Sold account.

Cost and expenses are recognized in profit or loss upon receipt of goods or utilization of services or at the date they are incurred. All finance costs are reported in profit or loss on an accrual basis, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset (see Note 2.19).



## 2.15 Leases

### (a) Company as Lessee

For any new contracts entered into, the Group considers whether a contract is, or contains, a lease. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. To apply this definition, the Group assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group;
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and,
- the Group has the right to direct the use of the identified asset throughout the period of use. The Group assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

At lease commencement date, the Group recognizes a right-of-use asset and a lease liability in the consolidated statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received). Subsequently, the Group depreciates the right-of-use asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist (see Note 2.17).

On the other hand, the Group measures the lease liability at the present value of the lease payments unpaid at the commencement date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate. Lease payments include fixed payments (including in-substance fixed payments) less lease incentives receivable, if any, variable lease payments based on an index or rate, amounts expected to be payable under a residual value guarantee, and payments arising from options (either renewal or termination) reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients provided by the standard. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

On the consolidated statement of financial position, right-of-use assets and lease liabilities have been presented separately from property and equipment and other liabilities, respectively.

(b) *Accounting for Leases – Group as Lessor*

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

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

**2.16 Foreign Currency Transactions and Translation**

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

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

**2.17 Impairment of Non-financial Assets**

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

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

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

Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

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

## **2.18 Employee Benefits**

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

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

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

The liability recognized in the consolidated statement of financial position for a defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows for expected benefit payments using a discount rate derived from the interest rates of zero coupon government bond using the reference rates published by Bloomberg using its valuation technology, Bloomberg Valuation (BVAL), that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability. BVAL provides evaluated prices that are based on market observations from contributed sources.

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

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

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

A defined contribution plan is a post-employment plan under which the Group pays fixed contributions into an independent entity. The Group has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due.

Liabilities or assets may be recognized if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short-term nature.

(c) *Termination Benefits*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits and when it recognizes costs for a restructuring that is within the scope of PAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the reporting period are discounted to their present value.

(d) *Compensated Absences*

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of the reporting period. They are included in Accrued expenses and other under Trade and Other Payables account in the consolidated statement of financial position at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

## **2.19 *Borrowing Costs***

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

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

## **2.20 *Income Taxes***

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

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

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

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

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

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

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

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

## **2.21 Segment Reporting**

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

In identifying its operating segments, management generally follows the Group's revenue sources as disclosed in Note 27, which represent the main revenue sources provided by the Group.

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

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

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

## **2.22 Related Party Transactions and Relationships**

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

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

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

In compliance with SEC Memorandum Circular No. 10-2019, *Rules on Material Related Party Transactions for Publicly-listed Entities*, all individual material related party transactions shall be approved by at least two-thirds vote of the BOD, with at least a majority of the independent directors voting to approve the material related party transactions. In case that a majority of the independent directors' vote is not secured, the material related party transaction may be ratified by the vote of the stockholders representing at least two-third of the outstanding capital stock. For aggregate related party transactions within a 12-month period that breaches the materiality threshold of 10% of the Group's total assets based on the latest audited financial statements, the same BOD approval would be required for the transactions that meet and exceed the materiality threshold covering the same related party.

Directors with personal interest in the transaction should abstain from participating in the discussions and voting on the same. In case they refuse to abstain, their attendance shall not be counted for the purposes of assessing the quorum and their votes shall not be counted for purposes of determining approval.

### **2.23 Equity**

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

Additional paid-in capital (APIC) includes any premium received on the issuance of capital stock and stock dividends. This also includes the excess of the reissuance price of treasury shares over the related cost of acquisition. Any transaction costs associated with the issuance of shares are deducted from APIC, net of any related income tax benefits.

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

Retained earnings represent all current and prior period results of operations as reported in the consolidated statement of profit or loss, reduced by any dividend declared.

### **2.24 Earnings per Share**

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

Diluted EPS is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential shares. As of December 31, 2021 and 2020, the Group does not have dilutive potential shares outstanding; hence, the diluted earnings per share is equivalent to the basic earnings per share.

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

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

### 3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements in accordance with PFRS requires management to make judgments and estimates that affect the amounts reported in the consolidated financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates.

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

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

(a) *Determination of Lease Term of Contracts with Renewal and Termination Options*

In determining the lease term, management considers all relevant factors and circumstances that create an economic incentive to exercise a renewal option or not exercise a termination option. Renewal options and/or periods after termination options are only included in the lease term if the lease is reasonably certain to be extended or not terminated. Accordingly, the Group opted not to include renewal terms in evaluating each lease as renewal of lease contract is subject to mutual agreement between parties.

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 that is within the control of the Group.

(b) *Determination of Timing of Satisfaction of Performance Obligation*

The Group determines that its revenue from sale of goods shall be recognized at a point in time when the control of the goods have passed to the customer, i.e., generally when the customer has acknowledged delivery of goods.

The Group also determines that its revenue from rendering of consultancy services shall be recognized over time, i.e., based on the percentage of completion of the agreed services to be rendered.

(c) *Determination of ECL on Trade and Other Receivables and Refundable Deposits*

The Group uses a provision matrix to calculate ECL for trade and other receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is based on the Group's historical observed default rates. The Group's management intends to regularly calibrate (i.e., on an annual basis) the matrix to consider the historical credit loss experience with forward-looking information (i.e., forecast economic conditions). Details about the ECL on the Group's trade and other receivables are disclosed in Note 23.2.

ECL for refundable deposits are determined based on general liquidity of counterparties.

(d) *Evaluation of Business Model Applied in Managing Financial Instruments*

The Group developed business models which reflect how it manages its portfolio of financial instruments. The Group's business models need not be assessed at entity level or as a whole but shall be applied at the level of a portfolio of financial instruments (i.e., group of financial instruments that are managed together by the Group) and not on an instrument-by-instrument basis (i.e., not based on intention or specific characteristics of individual financial instrument).

In determining the classification of a financial instrument, the Group evaluates in which business model a financial instrument or a portfolio of financial instruments belong to taking into consideration the objectives of each business model established by the Group (e.g., held-for-trading, generating accrual income, direct matching to a specific liability) as those relate to the Group's investment and trading strategies.

(e) *Testing of Cash Flow Characteristics of Financial Assets and Continuing Evaluation of the Business Model*

In determining the classification of financial assets, the Group assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are SPPI on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria. In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as modified time value of money, the Group assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion. The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Group considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

In addition, if more than an infrequent sale is made out of a portfolio of financial assets carried at amortized cost, an entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, the Group considers certain circumstances documented in its business model manual to assess that an increase in the frequency or value of sales of financial instruments in a particular period is not necessary inconsistent with a held-to-collect business model if the Group can explain the reasons for those sales and why those sales do not reflect a change in the Group's objective for the business model.

(f) *Determination of Significant Influence Over Entities in Which the Group Holds Less Than 20% Ownership*

The Group determines whether significant influence exists in investments where the Group hold less than 20% ownership interest over the investee. The Group considers the ability to influence the operating and financial policies of the investee, representation on the BOD of the investee and routine participation in management decisions in making this judgment.



Based on management's judgment, even with less than 20% ownership for entities discussed in Note 7, the Group considers these companies as associates due to the presence of significant influence, but not control, over their operations since the Group's certain director and officers are also officers of these companies.

(g) *Determination of Control of Subsidiary Over Which the Group Holds Less Than 50% Ownership*

The Group determines whether there is control over an entity where the Parent Company holds less than 50% ownership interest. The Parent Company considers whether it has the ability to direct the business plans and operations of the entity in making this judgment.

Management assessed that control over a subsidiary for which the Group holds less than 50% ownership is retained on the basis that several members of the Group's BOD and officers are also members of the subsidiary's BOD. Further, the next most significant stockholder of the subsidiary as of December 31, 2021 is the Ultimate Parent Company.

(h) *Distinction Between Business Combination and Asset Acquisition*

The Group determines whether the acquisition of an entity constitutes a business combination or an asset acquisition. The accounting treatment for the acquisition is determined by assessing whether the transaction involved a purchase of a "business" taking into consideration the substance of the transaction. Failure to make the right judgment will result in misstatement of asset.

Management assessed that the acquisition of ownership in Benesale Land, Inc. (Benesale) is to be accounted for as asset acquisition (see Note 7.2) since it does not constitute a purchase of a business; that is, the Group merely acquired control over the assets of Benesale rather than its business and operations.

(i) *Distinction Between Investment Properties and Owner-managed Properties*

The Group determined that its parcels of land, land improvements and building qualify as investment properties. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by an entity.

Owner-occupied properties generate cash-flows that are attributable not only to the property but also to other assets used in the Group's main line of business. Based on management's assessment, the properties qualify as investment properties.

(j) *Determination of Classification as Asset Held for Sale*

The Group determines whether its investment in a subsidiary over which the Group hold more than 50% ownership be classified as an asset held for sale. The Group considers whether sale of such subsidiary is highly probable and if investment can be sold to a buyer in its current condition.

Management is of the opinion that the sale is highly probable since the subsidiary has an active program to locate a buyer and the assets of the subsidiary is actively marketed for sale at a price reasonable in relation to its current fair value.

(k) *Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.13 and disclosures on relevant provisions and contingencies are presented in Note 22.

**3.2 Key Sources of Estimation Uncertainty**

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

(a) *Determination of Appropriate Discount Rate in Measuring Lease Liabilities*

The Group measures its lease liabilities at present value of the lease payments that are not paid at the commencement date of the lease contract. The lease payments were discounted using a reasonable rate deemed by management equal to the Group incremental borrowing rate. In determining a reasonable discount rate, management considers the term of the leases, the underlying asset and the economic environment. Actual results, however, may vary due to changes in estimates brought about by changes in such factors.

(b) *Estimation of Allowance for ECL*

The measurement of the allowance for ECL on financial assets at amortized cost is an area that requires the use of significant assumptions about the future economic conditions and credit behavior (e.g., likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation used in measuring ECL is further detailed in Notes 5 and 23.2.

(c) *Determination of NRV of Inventories*

In determining the NRV of inventories, management takes into account the most reliable evidence available at the times the estimates are made. It also takes into consideration the obsolescence of the inventory in determining NRV. The future realization of the carrying amounts of inventories as disclosed in Note 6 is affected by price changes in different market segments. These aspects are considered key sources of estimation uncertainty and may cause significant adjustments to the Group's inventories within the next reporting period. Management believes that the Group's inventories are properly valued at lower of cost and NRV as of December 31, 2021 and 2020.

(d) *Estimation of Useful Lives of Intangible Asset, Property and Equipment, Right-of-use Assets, and Investment Properties*

The Group estimates the useful lives of intangible asset, property and equipment, right-of-use assets and investment properties based on the period over which the assets are expected to be available for use. The estimated useful lives of intangible asset, property and equipment, right-of-use assets and investment properties are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear and legal or other limits on the use of the assets.

Based on management's assessment as at December 31, 2021 and 2020, there is no change in the estimated useful lives of the intangible asset, property and equipment, right-of-use assets and investment properties during those periods. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above. The carrying amount of intangible asset, property and equipment, right-of-use assets and investment properties are presented in Notes 8.3, 9, 10.1 and 11, respectively.

(e) *Impairment of Non-financial Assets*

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2.17). Though management believes that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in those assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

There were no impairment losses recognized on non-financial assets for the years ended December 31, 2021, 2020 and 2019 based on management's assessment.

(f) *Fair Value Measurement of Investment Properties*

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

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

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

The determination of the Group's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates and salary rate increase.

A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or losses and the carrying amount of the post-employment benefit obligation in the next reporting period.

The amounts of post-employment defined benefit obligation and expense, an analysis of the movements in the estimated present value of post-employment defined benefit obligation and assumptions used are presented in Note 18.2.

(b) *Determination of Realizable Amount of Deferred Tax Assets*

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Management has assessed that the amount of tax benefits from its future deductible differences which is recognized as deferred tax assets as at December 31, 2021 and 2020 will be fully utilized subsequently except on the Group's share in net losses in associates as of December 31, 2021 and 2020.

For the associates' deferred tax assets, management has determined that the associates may not be able to utilize the benefits of such deferred tax assets prior to their expiration. As such, the Group's share in net income (losses) in the associates does not include its share in the deferred tax income recognized by the associates.

The carrying value of deferred tax assets as of December 31, 2021 and 2020 is disclosed in Note 20.

#### 4. CASH

Cash on hand and in banks of the Group amounted to P250.2 million and P238.4 million as of December 31, 2021 and 2020, respectively.

Cash in banks generally earn interest based on average bank deposit rates.

Interest income from Cash for the years ended December 31, 2021, 2020 and 2019 is presented under the Finance Income account in the consolidated statements of profit or loss (see Note 17.2).

#### 5. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

	<u>Note</u>	<u>2021</u>	<u>2020</u>
Trade receivables	19.4	<b>P 84,091,504</b>	P 85,301,854
Non-trade receivable	19.7	<b>365,000,000</b>	635,800,000
Due from associate	19.2	-	4,728
Other receivables		<u><b>7,620,919</b></u>	<u>3,253,180</u>
		<b>456,712,423</b>	724,359,762
Allowance for impairment		<u><b>(393,845)</b></u>	<u>(485,334)</u>
		<u><b>P 456,318,578</b></u>	<u>P 723,874,428</u>

Trade receivables are usually due within 30 to 60 days and do not bear any interest.

Non-trade receivable pertains to payments made to a third party in relation to a purchase of a certain property by an associate and will be collected upon consummation of the transaction (see Note 19.7).

Due from associate pertain to noninterest-bearing advances for working capital purposes which are due and demandable (see Note 19.2).

All of the Group's trade and other receivables have been assessed for ECL. In 2020, certain trade receivables were assessed to have credit losses using the provisional matrix as determined by the management; hence, an additional allowance for ECL have been recognized (see Notes 15 and 23.2). In 2021, portion of 2020 allowance was reversed and recognized as part of other operating income (see Note 16). For the non-trade receivable, no ECL was recognized as the counterparty is deemed to be of low credit risk based on the current status of the property purchased.

A reconciliation of the allowance for the impairment at the beginning and end of 2021 and 2020 is shown below.

	Notes	2021	2020
Balance at beginning of year		<b>P 485,334</b>	P 443,015
Impairment recovery	16	( 91,489)	-
Impairment losses	15	-	42,319
Balance at end of year		<b><u>P 393,845</u></b>	<u>P 485,334</u>

## 6. INVENTORIES

The details of inventories are shown below:

	2021	2020
At cost	<b><u>P 534,713,989</u></b>	<u>P 639,112,188</u>
At NRV:		
Cost	465,775,605	479,292,688
Allowance for inventory writedown	( <u>224,116,962</u> )	( <u>223,931,940</u> )
	<b><u>241,658,913</u></b>	<u>255,360,748</u>
	<b><u>P 776,372,902</u></b>	<u>P 894,472,936</u>

An analysis of the cost of inventories included in cost of goods sold as of December 31, 2021 and 2020 is presented in Note 15.

A reconciliation of the allowance for inventory writedown at the beginning and end of 2021 and 2020 is shown below.

	2021	2020
Balance at beginning of year	<b>P 223,931,940</b>	P 222,933,754
Provision during the year	17,652,507	28,775,726
Recovery during the year	( <u>17,467,755</u> )	( <u>27,777,540</u> )
Balance at end of year	<b><u>P 224,116,692</u></b>	<u>P 223,931,940</u>

In 2021, 2020 and 2019, the Group recognized the reversal of inventory writedown amounting to P17.5 million, P27.8 million and P36.0 million, respectively, following the sale and recovery of certain merchandise inventories in which costs were written down to its NRV in previous years; these are presented as an adjustment to Cost of Goods Sold in the consolidated statements of profit or loss (see Note 15).

In 2021, 2020 and 2019, the Group recognized additional provision for inventory writedown amounting to P17.7 million, P28.8 million, and P22.4 million, respectively, which is presented as Provision for inventory writedown under the Cost of Goods Sold in the consolidated statements of profit or loss (see Note 15).

Certain inventories of the Group with carrying amount of P160.7 million and P142.3 million as of December 31, 2021 and 2020, respectively, were used as collateral for trust receipts payables (see Note 13).

As of December 31, 2021 and 2020, the Group has no inventory purchase commitments.

## 7. INVESTMENTS IN ASSOCIATES AND ACQUISITION OF AN ASSET

### 7.1 *Investments in Associates*

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

	<u>2021</u>	<u>2020</u>
Associates of both Parent Company and SBS Holdings:		
GHC	<b>P 1,097,326,867</b>	P 1,098,328,042
SPHC	<b>281,330,984</b>	282,757,526
BPHC	<b><u>221,258,473</u></b>	<u>221,354,308</u>
	<b><u>1,599,916,324</u></b>	<u>1,602,439,876</u>
Associates of Parent Company:		
CPHC	<b>682,881,709</b>	723,913,543
LPHC	<b>41,259,588</b>	42,126,836
AHC	<b>22,708,981</b>	26,160,213
IBHC	<b><u>8,745,666</u></b>	<u>8,770,034</u>
	<b><u>755,595,944</u></b>	<u>800,970,626</u>
Associates of SBS Holdings:		
MFHC	<b>111,670,834</b>	111,844,239
JoHL	<b>89,594,923</b>	89,614,255
OHC	<b>87,743,297</b>	88,468,865
SHC	<b>45,876,246</b>	45,979,173
ARHC	<b>43,877,488</b>	44,389,464
UHC	<b>33,632,994</b>	8,348,958
JHC	<b>26,886,659</b>	26,985,157
ICHC	<b>23,013,716</b>	23,298,990
NHC	<b>13,261,226</b>	15,403,888
MPI	<b>5,911,128</b>	6,019,559
ArHC	<b>3,561,388</b>	3,591,633
APHC	<b>1,326,787</b>	2,984,777
IHC	<b>1,003,315</b>	1,013,203
JuHC	<b>802,589</b>	25,234,286
ASHC	<b>52,180</b>	283,483
SyHC	<b>-</b>	8,424,835
	<b><u>488,214,770</u></b>	<u>501,884,765</u>
	<b><u>P 2,843,727,038</u></b>	<u>P 2,905,295,267</u>

The Group recognized its share in net losses of the investee companies in the total amount of P91.9 million and P19.8 million in 2021 and 2019, respectively, and its share in the net income of the investee companies in the total amount of P674.8 million in 2020 which are presented as Equity in Net Income (Losses) of Associates in the consolidated statements of profit or loss.

A reconciliation of the carrying amounts of investments in associates at the beginning and end of 2021 and 2020 is presented below.

	Note	2021	2020
Balance at beginning of year		<b>P 2,905,295,267</b>	P 2,122,989,855
Additions		<b>25,575,000</b>	107,500,000
Reclassification	8.2	<b>4,717,500</b>	-
Equity in net income (losses) – net		<b>( 91,860,729)</b>	674,805,412
Balance at end of year		<b><u>P 2,843,727,038</u></b>	<u>P 2,905,295,267</u>

A reconciliation of the costs of investments and cumulative share in net income of the associates as of December 31, 2021 and 2020 is shown below.

	2021	2020
Cost		
Balance at beginning of year	<b>P 2,172,593,983</b>	P 2,065,093,983
Additions	<b>25,575,000</b>	107,500,000
Reclassification	<b>4,717,500</b>	-
Balance at end of year	<b><u>2,202,886,483</u></b>	<u>2,172,593,983</u>
Cumulative share in net income		
Balance at beginning of year	<b>732,701,284</b>	57,895,872
Equity in net income (losses) for the year – net	<b>( 91,860,729)</b>	674,805,412
Balance at end of year	<b><u>640,840,555</u></b>	<u>732,701,284</u>
Carrying amount at end of year	<b><u>P 2,843,727,038</u></b>	<u>P 2,905,295,267</u>

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

	Current Assets	Non-current Assets	Current Liabilities	Non-current Liabilities	Expenses	Net Loss (Income)
2021						
CPHC	P 3,034,712,425	P 81,633,233	P1,086,547,63	P 114,925,300	P 110,152,671	P 110,152,671
JuHC	2,452,094,417	50,316,091	5,971,669	2,517,750,000	84,251,046	67,700,424
BPHC	891,303,999	25,505,249	65,309	-	416,778	416,778
ICHHC	244,304,104	102,505,626	1,319,006	256,790,332	12,095,114	964,556
GHC	160,498,408	1,430,162,130	236,524	474,000,000	3,544,113	3,544,113
AHC	118,106,523	279,201,315	5,303,839	291,069,574	7,257,980	7,527,980
MHC	93,829,744	651,062,610	34,445,726	665,000,000	26,257,841	21,784,493
MFHC	56,585,840	569,455,859	69,965	-	1,020,146	1,852,528
SHC	29,117,147	259,207,833	675,664	26,400,000	588,241	500,649
IHC	25,370,403	54,464	31,050	20,187,500	58,400	51,543
ASHC	19,118,943	155,857,453	219,954	187,700,000	1,360,778	1,413,881
MPI	17,543,775	142,151,413	933,130	135,000,000	639,412	552,027
APHC	5,163,446	361,711,018	212,765	363,625,000	7,538,206	6,671,188
LPHC	5,012,005	299,006,026	9,299,946	180,000,000	4,072,873	4,072,873
IBHC	3,417,617	134,820,480	1,702,471	85,000,000	262,601	262,601

		Current Assets	Non-current Assets	Current Liabilities	Non-current Liabilities	Expenses	Net Loss (Income)
2021							
	OHC	P 2,696,941	1,085,487,127	P 931,843,376	-	P 2,502,189	P 4,504,984
	SyHC	2,484,748	1,185,204,488	937,787	1,180,000,000	42,218,358	31,687,367
	ARHC	2,435,777	313,501,486	69,112	54,800,000	3,011,838	2,871,769
	ArHC	2,107,102	154,239,588	2,031,050	138,000,000	137,990	121,580
	CHC	1,285,071	1,576,612,470	2,238,482	1,642,000,000	45,556,806	37,927,399
	SPHC	1,137,354	1,560,223,158	239,062	1,078,589,062	1,576,734	1,576,734
	UHC	586,249	185,587,692	31,050	33,000,000	1,322,994	1,010,134
	NHC	403,565	345,198,474	471,172	288,000,000	9,739,489	8,895,065
	JHC	141,151	456,696,223	158,429	334,148,070	449,061	412,184
2020							
	CPHC	P 3,759,837,938	P 112,679,512	P 625,020,577	P1,191,425,300	P 178,282	(P 2,157,642,764)
	BPHC	891,921,955	25,422,952	266,582	-	807,211	1,134,610
	CHC	648,380,446	1,558,781,522	1,222,952,514	1,040,000,000	33,058,582	23,140,343
	JuHC	558,400,585	2,012,953,178	6,290,803	2,517,750,000	3,077,993	61,321,370
	ICHC	245,541,408	102,572,805	8,573,273	250,000,000	5,541,089	( 3,472,115)
	GHC	160,451,149	1,431,153,738	645,281	470,000,000	4,403,254	3,081,632
	MFHC	57,647,996	573,670,080	112,091	1	9,743,871	6,820,247
	AHC	29,396,971	280,075,614	57,725,229	138,750,000	375,100	3,915,187
	IHC	25,439,722	88,185	42,200	20,187,500	58,977	41,064
	SHC	23,069,218	265,280,004	49,330	26,400,000	485,848	339,757
	MHC	19,713,699	943,365,355	12,844,729	943,000,000	31,507,615	22,054,175
	ASHC	18,733,907	158,235,737	184,316	185,990,000	2,285,232	1,599,427
	MPI	16,935,464	142,772,072	138,496	135,078,500	722,138	505,379
	LPHC	14,952,564	302,024,728	113,168,525	82,000,000	208,615	4,315,133
	ARHC	3,099,599	316,460,672	227,476	51,175,000	2,355,650	1,648,587
	SyHC	2,045,985	1,175,786,552	527,067	1,138,646,930	368,174	251,172
	OHC	908,349	1,095,465,622	525,552,475	402,000,000	4,364,557	3,450,325
	JHC	639,620	458,353,982	1,879,635	334,148,070	449,861	314,636
	APHC	337,786	364,498,936	890,789	350,750,000	197,968	5,869,918
	IBHC	138,667	134,855,519	83,174,774	-	251,263	175,731
	NHC	121,636	349,513,013	409,868	278,520,000	9,982,649	7,019,904
	UHC	116,629	185,295,579	238,480	157,000,000	155,228	108,486
	ArHC	89,726	154,314,644	76,200	137,800,000	141,551	98,938
	SPHC	77,468	1,561,260,461	327,516	1,151,625,000	4,053,278	2,836,931

A reconciliation of the summarized financial information to the carrying amount of the investments in associates as of December 31 is shown below.

	Explanatory Notes	Net Asset Value	Share in Net Asset	Carrying Value
2021				
CPHC	(b)	P1,914,872,723	P 713,290,089	P 682,881,709
GHC	(b), (c), (e), (h)	1,116,424,014	315,389,784	1,097,326,867
BPHC	(c), (e), (h)	916,743,939	210,851,106	221,258,473
MFHC	(b), (h)	625,971,734	106,415,195	111,670,834
SPHC	(b), (e),	482,532,388	281,895,422	281,330,984
SHC	(b), (h)	261,249,316	45,718,630	45,876,246
ARHC	(b)	261,068,151	44,381,586	43,877,488
OHC	(b), (f), (h)	156,340,692	45,338,801	87,743,297
UHC	(a)	153,142,891	33,691,436	33,632,994
JHC	(a)	122,530,875	26,956,793	26,886,659
LPHC	(b)	114,718,085	42,445,691	41,259,588
AHC	(b)	100,934,425	25,233,606	22,708,981
ICHC	(a), (h)	88,700,392	22,175,098	23,013,716
CHC	(a), (g)	( 66,340,941)	-	-
NHC	(a), (f)	56,650,867	12,463,191	13,261,226
IBHC	(a)	51,535,626	8,761,056	8,745,666
MHC	(a), (g)	45,446,628	13,179,522	-
MPI	(b)	23,762,058	4,039,550	5,911,128
JuHC	(a), (b)	( 21,311,161)	-	802,589
JoHL	(b), (d), (e), (h)	( 19,457,927)	-	89,594,923
ArHC	(a)	16,315,640	3,589,441	3,561,388
ASHC	(b)	( 12,943,558)	-	52,180
SyHC	(a), (b), (g)	6,751,449	1,485,319	-
IHC	(a)	5,206,317	885,074	1,003,315
APHC	(b)	3,036,699	668,074	1,326,787



	Explanatory Notes	Net Asset Value	Share in Net Asset	Carrying Value
2020				
CPHC	(b)	P 2,056,071,572	P 765,886,661	P 723,913,543
GHC	(b), (c), (e), (h)	1,120,959,606	189,442,173	1,098,328,042
BPHC	(c), (e), (h)	917,078,325	122,063,125	221,354,308
MFHC	(b), (h)	631,205,984	107,305,017	111,844,239
SPHC	(b), (e)	409,385,413	184,018,743	282,757,526
ARHC	(b)	268,157,796	45,586,825	44,389,464
SHC	(b), (h)	261,899,892	45,832,481	45,979,173
OHC	(b), (f), (h)	168,821,586	48,958,260	88,468,865
JHC	(a)	122,965,898	27,052,497	26,985,157
LPHC	(b)	121,808,767	45,069,244	42,126,836
AHC	(b)	112,997,356	28,249,339	26,160,213
ICHC	(a), (b)	89,540,940	22,385,235	23,298,990
NHC	(a), (f)	70,704,781	15,555,052	15,403,888
CHC	(a), (g)	( 55,790,545 )	-	-
IBHC	(a)	51,819,412	8,809,300	8,770,034
JuHC	(a), (b)	47,312,960	13,720,758	25,234,286
SyHC	(a), (b), (g)	38,658,540	8,504,879	8,424,835
UHC	(a)	28,173,728	6,198,220	8,348,958
MPI	(b)	24,490,540	4,163,392	6,019,559
JoHL	(b), (d), (e)	( 19,457,927 )	-	89,614,255
ArHC	(a)	16,528,169	3,636,197	3,591,633
APHC	(b)	13,195,933	2,903,105	2,984,777
ASHC	(b)	( 9,204,672 )	-	283,483
MHC	(a), (g)	7,234,325	2,097,954	-
IHC	(a)	5,298,207	900,695	1,013,203

Following are the explanatory notes to the reconciliation presented above.

- (a) Shares from these entities were acquired at the date of incorporation.
- (b) Shares were purchased from new issuances of stock by these entities subsequent to the date of incorporation. The shares were bought with reference to the fair value of the assets owned by these entities at the time of purchase.
- (c) Shares were purchased directly from an existing stockholder; accordingly, the shares were bought with reference to the fair value of the assets owned by these entities at the time of purchase.
- (d) The Group invested a 5% equity stake in JoHL, a Hong Kong investment holding company that has a 90% stake in Maxco International Development Limited (Maxco), a Hong Kong property holding company, that owns directly and indirectly through its wholly owned subsidiaries, contiguous parcels of land located in Tuen Mun, New Territories, Hong Kong which have a combined lot area of approximately 4,641.7 square meters and suited for high-end property development. The Group's management believes that the investment amount of P89.6 million is not impaired.
- (e) Share in net assets of the associates are based on the effective ownership of the Group as a whole. Meanwhile, the carrying value of the investments in the associates are based on the combined total of the investments of the Parent Company and SBS Holdings.
- (f) In October 2020, SBS Holdings acquired 25,050,000 common shares or 29.00% interest in OHC at par. Further, NHC issued 40 million new common shares from its unissued capital stock. SBS Holdings purchased additional 8.8 million shares, which is proportionate to its existing shareholdings of 22.00%.

- (g) Cumulative share in net losses in these associates exceeded the investments in the said entities as of December 31, 2021. As such, recognized losses is only up to the extent of the investment. Unrecognized cumulative share in net losses from these associates amounted to P32.3 million as of December 31, 2021.
- (h) The primary business of these associates is to hold investment properties. Management assessed that the share in fair value of the investment properties held by these associates exceeds the carrying value of investments as of the end of the reporting period, hence, no impairment was recognized.

## 7.2 Acquisition of an Asset

In February 2018, LHC acquired 100% ownership interest in Benesale. Benesale is a company incorporated in the Philippines and holds an investment property in the form of land. The registered office of Benesale, which is also its principal place of business, is located at 10 Miller St., Brgy. Bungad, San Francisco Del Monte, Quezon City.

As of December 31, 2020, Benesale has no operations and its assets mainly pertain to the land where the Group's buildings, improvements and machinery are located, which is at Canlubang, Laguna. In accordance with Group's policy (see Note 2.5), the transaction is accounted by the Group as an asset acquisition since the transaction does not constitute an acquisition of a business.

As of December 31, 2020, the land, building and improvements were classified as part of Assets Held for Sale in the 2020 consolidated statement of financial position (see Note 12).

Subsequent to the date of acquisition, any changes in the carrying value of the net assets acquired in the books of Benesale, including the expenses incurred in administering the property (i.e., property taxes), shall be updated in the books of the Group on a line-by-line basis, as if they are consolidated in a single entry. The difference shall be charged directly to profit or loss.

## 8. PREPAYMENTS AND OTHER ASSETS

This account is composed of the following as of December 31:

	Notes	2021	2020
Current assets:			
Refundable deposits	8.1	P 100,844,433	P 603,021,235
Input value-added tax (VAT)		12,164,206	31,239,720
Creditable withholding tax		11,483,740	9,422,398
Prepaid expenses	19.3	<u>9,176,139</u>	<u>15,568,267</u>
		<u>P 133,668,518</u>	<u>P 659,251,620</u>
Non-current assets:			
Investment subscriptions	8.2	P 1,541,955,200	P 1,328,267,500
Refundable deposits	8.1	1,217,364,797	768,750,000
Computer software – net	8.3	<u>8,745,459</u>	<u>8,529,224</u>
		<u>P 2,768,065,456</u>	<u>P 2,105,546,724</u>

Prepaid expenses pertain mainly to advance payments on real property taxes and insurance premiums. It also includes amounts paid to lessor for the short-term lease of a warehouse. These can be applied against unpaid rent or any damages against leased property.

### 8.1 *Refundable Deposits*

Prior to 2020, the Group made advance payment amounting to P600.0 million for the purchase of certain properties. The advance payment was initially recorded as part of Advances for an asset acquisition account, presented under Other Non-current Assets. However, in 2020, the Group decided to no longer pursue the purchase of the properties due to the unfavorable result of the due diligence undertaken on the properties. Both parties agreed to refund the deposit no later than June 30, 2021. Consequently, the amount was treated as deposit and, accordingly, reclassified from Advances for an asset acquisition to Refundable deposits, presented under Prepayments and Other Current Assets in the 2020 consolidated statement of financial position. Thereafter, on December 22, 2021, both parties agreed to extend the collection period until 2024. The Group also secured the right of first refusal to purchase the land at agreed price until the outstanding balance has been fully collected. The Group recognized day-one loss on discounting of the refundable deposit due to the extension of the collection period. The day-one loss on discounting is presented as part of Finance Costs in the 2021 consolidated statement of profit or loss. There was no similar transaction in 2020 and 2019.

Refundable deposits also include amounts deposited by the Group to certain related parties in relation to certain memoranda of agreement which may be refunded upon fulfillment of certain conditions (see Note 19.5).

A reconciliation of the carrying amounts of the refundable deposits as of December 31, 2021 and 2020 are presented below.

	<u>Notes</u>	<u>2021</u>	<u>2020</u>
Balance at beginning of year		<b>P 1,371,771,235</b>	P 771,771,235
Collections during the year		<b>( 10,000,000)</b>	-
Reclassification		<u>-</u>	<u>600,000,000</u>
Undiscounted balance			
at end of year		<b>1,361,771,235</b>	1,371,771,235
Day-one loss on discounting	17.1	<b>( 43,562,005)</b>	-
Balance at end of year		<b>1,318,209,230</b>	1,371,771,235
Less current portion		<b>( 100,844,433)</b>	<b>( 603,021,235)</b>
Non-current portion	19.5	<b><u>P 1,217,364,797</u></b>	<b><u>P 768,750,000</u></b>

### 8.2 *Investment Subscriptions*

Investment subscriptions pertain to deposits for future subscription made by the Group in certain domestic companies. A reconciliation of the carrying amounts of investment subscriptions at the beginning and end of 2021 and 2020 is shown below.

	<u>2021</u>	<u>2020</u>
Balance at beginning of year	<b>P 1,328,267,500</b>	P 1,492,267,500
Additions	<b>278,405,200</b>	-
Cancellations	<b>( 60,000,000)</b>	-
Reclassification	<b>( 4,717,500)</b>	<b>( 164,000,000)</b>
	<b><u>P 1,541,955,200</u></b>	<b><u>P 1,328,267,500</u></b>

In 2021, the Group paid for various additional investment subscriptions for existing associates. Also in 2021, investment subscription to Milia Holdings Corp. amounting to P60.0 million was cancelled and refunded to the Group. There were no similar transactions in 2020.

In 2021, the Group reclassified some subscriptions to CHC amounting to P4.7 million to Investments in associates account (see Note 7.1). In 2019, investment subscriptions held by LHC was reclassified as part of Assets Held for Sale in the 2020 consolidated statement of financial position (see Note 12).

The relevant transactions needed for these subscriptions to be reclassified as investment in associates are yet to be completed or executed.

### 8.3 Computer Software

A reconciliation of the carrying amounts of computer software at the beginning and end of 2021 and 2020 is shown below.

	<u>2021</u>	<u>2020</u>
Balance at beginning of the year	<b>P 8,529,224</b>	P 7,593,668
Additions	<b>783,587</b>	935,556
Amortization	<b>(567,352)</b>	-
Balance at end of year	<b><u>P 8,745,459</u></b>	<b><u>P 8,529,224</u></b>

The amortization of the computer software started only on July 1, 2021, which is the date when compute software was deemed ready for intended use. Amortization of computer software is presented as part of Depreciation and amortization under Other Operating Expenses in the 2021 consolidated statement of profit or loss (see Note 15).

## 9. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of property and equipment at the beginning and end of 2021, 2020, 2019 are as follows:

	<u>Leasehold Improvements</u>	<u>Transportation and other Equipment</u>	<u>Fixture and Fixtures</u>	<u>Construction in Progress</u>	<u>Total</u>
December 31, 2021					
Cost	P 12,355,480	P 73,148,093	P 5,236,454	P 14,852,002	P 105,592,029
Accumulated depreciation and amortization	( 5,751,472 )	( 51,623,264 )	( 5,045,315 )	-	( 62,420,051 )
Net carrying amount	<b><u>P 6,604,008</u></b>	<b><u>P 21,524,829</u></b>	<b><u>P 191,139</u></b>	<b><u>P 14,852,002</u></b>	<b><u>P 43,171,978</u></b>
December 31, 2020					
Cost	P 7,467,022	P 54,681,019	P 5,183,686	P 3,157,167	P 70,488,894
Accumulated depreciation and amortization	( 5,217,962 )	( 47,541,728 )	( 4,849,607 )	-	( 57,609,297 )
Net carrying amount	<b><u>P 2,249,060</u></b>	<b><u>P 7,139,291</u></b>	<b><u>P 334,079</u></b>	<b><u>P 3,157,167</u></b>	<b><u>P 12,879,597</u></b>
December 31, 2019					
Cost	P 6,842,022	P 150,837,314	P 6,835,656	P -	P 164,514,992
Accumulated depreciation and amortization	( 4,668,945 )	( 61,485,490 )	( 5,722,049 )	-	( 71,876,484 )
Net carrying amount	<b><u>P 2,173,077</u></b>	<b><u>P 89,351,824</u></b>	<b><u>P 1,113,607</u></b>	<b><u>P -</u></b>	<b><u>P 92,638,508</u></b>

		<u>Leasehold Improvements</u>	<u>Transportation and other Equipment</u>	<u>Fixture and Fixtures</u>	<u>Construction in Progress</u>	<u>Total</u>
January 1, 2019						
Cost	P	6,842,022	P 148,963,766	P 6,826,192	P -	P 162,631,980
Accumulated depreciation and amortization	(	<u>4,142,636</u>	<u>( 47,526,610)</u>	<u>( 4,934,830)</u>	<u>-</u>	<u>( 56,604,076)</u>
Net carrying amount	P	<u>2,699,386</u>	<u>P 101,437,156</u>	<u>P 1,891,362</u>	<u>P -</u>	<u>P 106,027,904</u>

A reconciliation of the carrying amounts of property and equipment at the beginning and end of 2021, 2020, and 2019 is shown below.

		<u>Leasehold Improvements</u>	<u>Transportation and other Equipment</u>	<u>Fixture and Fixtures</u>	<u>Construction in Progress</u>	<u>Total</u>
Balance at January 1, 2021, net of accumulated depreciation and amortization	P	2,249,060	P 7,139,291	P 334,079	P 3,157,167	P 12,879,597
Additions		4,888,458	18,467,074	52,768	11,694,835	35,103,135
Depreciation and amortization charges for the year continued operations	(	<u>533,510</u>	<u>( 4,081,536)</u>	<u>( 195,708)</u>	<u>-</u>	<u>( 4,810,754)</u>
Balance at December 31, 2021, net of accumulated depreciation and amortization	P	<u>6,604,008</u>	<u>P 21,524,829</u>	<u>P 191,139</u>	<u>P 14,852,002</u>	<u>P 43,171,978</u>
Balance at January 1, 2020, net of accumulated depreciation and amortization	P	2,173,077	P 89,351,824	P 1,113,607	P -	P 92,638,508
Additions		625,000	311,322	6,302	3,157,167	4,099,791
Reclassification	-	(	68,331,228)	( 46,063)	-	( 68,377,291)
Depreciation and amortization charges for the year from:						
Continued operations	(	549,017)	( 4,545,865)	( 187,010)	-	( 5,281,892)
Assets held for sale	-	<u>-</u>	<u>( 9,646,762)</u>	<u>( 552,757)</u>	<u>-</u>	<u>( 10,199,519)</u>
Balance at December 31, 2020, net of accumulated depreciation and amortization	P	<u>2,249,060</u>	<u>P 7,139,291</u>	<u>P 334,079</u>	<u>P 3,157,167</u>	<u>P 12,879,597</u>
Balance at January 1, 2019, net of accumulated depreciation and amortization	P	2,699,386	P 101,437,156	P 1,891,362	P -	P 106,027,904
Additions	-	-	1,873,548	9,464	-	1,883,012
Depreciation and amortization charges for the year from:						
Continued operations	(	526,309)	( 4,312,118)	( 234,462)	-	( 5,072,889)
Assets held for sale	-	<u>-</u>	<u>( 9,646,762)</u>	<u>( 552,757)</u>	<u>-</u>	<u>( 10,199,519)</u>
Balance at December 31, 2019, net of accumulated depreciation and amortization	P	<u>2,173,077</u>	<u>P 89,351,824</u>	<u>P 1,113,607</u>	<u>P -</u>	<u>P 92,638,508</u>

Depreciation and amortization from continuing operations is presented as part of Other Operating Expenses (see Note 15). On the other hand, the depreciation and amortization from Assets Held for Sale is presented as part of Net Loss After Tax from Discontinued Operations in the consolidated statements of profit or loss. Further, in 2020, certain property and equipment owned by LHC were reclassified to Assets Held for Sale in the 2020 consolidated statement of financial position (see Note 12).

Construction-in-progress pertains to accumulated costs incurred on warehouse facility and installation of solar panel being constructed as part of Group's expansion program. The percentage of completion of the construction in progress is 69% on the warehouse and 100% completed for solar panel, pending final inspection and approval of Manila Electric Company, as of December 31, 2021. The remaining ongoing project for warehouse is expected to be completed by the second quarter of 2022. The Solar Panel is retained as part of construction in progress since it is still subject to inspection and approval of operation by the power grid operator. Other than the remaining capital expenditures, there are no other capital commitments relating to the ongoing project.

As of December 31, 2021 and 2020, the gross carrying amount of the Group's fully depreciated property and equipment that are still in use is P43.7 million and P33.1 million, respectively.

## 10. LEASES

The Group is a lessee under non-cancellable operating leases covering its warehouses and office building. All the lease for warehouses and office space has a term of four years. All leases have renewal options subject to mutual agreement of the parties. Generally, termination of lease contracts shall be communicated to the lessee by the lessor 30 days prior to the termination or expiration of the lease contract. With the exception of two leases of a warehouse, which is a short-term lease, each lease is reflected in the consolidated statements of financial position as a right-of-use asset and as lease liability. The Group classifies its right-of-use assets as a separate line item in the consolidated statements of financial position.

Each lease generally imposes a restriction that, unless there is a contractual right for the Group to sublet the asset to another party, the right-of-use asset can only be used by the Group. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. The Group is prohibited from selling or pledging the underlying leased assets as security. For leases over warehouses and offices, the Group must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Group is to incur maintenance fees on such items in accordance with the lease contracts.

The table below describes the nature of the Group's leasing activities by type of right-of-use asset recognized in the consolidated statements of financial position.

	Number of right-of-use assets leased	Average remaining lease term
Warehouses and other related facilities	5	1 year
Office building	1	1 year

### 10.1 Right-of-use Assets

The carrying amounts of the Group's right-of-use assets as at December 31, 2021, 2020 and 2019, including the movements during the reporting period are shown below.

	<u>Warehouse and Other Related Facilities</u>	<u>Office Building</u>	<u>Total</u>
Balance as of January 1, 2021	P 46,294,333	P 5,171,449	P 51,465,782
Depreciation	( 23,147,167)	( 2,585,724)	( 25,732,891)
Balance as of December 31, 2021	<b><u>P 23,147,166</u></b>	<b><u>P 2,585,725</u></b>	<b><u>P 25,732,891</u></b>
Balance as of January 1, 2020	P 85,333,841	P 7,757,173	P 93,091,014
Derecognition of right-of-use assets	( 16,071,430)	-	( 16,071,430)
Depreciation	( 22,968,078)	( 2,585,724)	( 25,553,802)
Balance as of December 31, 2020	<u>P 46,294,333</u>	<u>P 5,171,449</u>	<u>P 51,465,782</u>
Balance as of January 1, 2019	P 31,784,679	P -	P 31,784,679
Additions	92,588,669	10,342,897	102,931,566
Depreciation	( 39,039,507)	( 2,585,724)	( 41,625,231)
Balance as of December 31, 2019	<u>P 85,333,841</u>	<u>P 7,757,173</u>	<u>P 93,091,014</u>

In January 2020, the renewal period of a certain lease was determined as unenforceable as renewal period is on annual basis as stated in the lease contract. The Group subsequently accounted the lease as a short-term lease. This resulted in the derecognition of right-of-use assets and the related accumulated depreciation. No gain or loss was recognized in the reclassification. All rent expense related to the reclassified lease is presented under Other Operating Expenses in the consolidated statements of profit or loss (see Note 15).

Depreciation of right-of-use assets is presented as part of Other Operating Expenses in the consolidated statements of comprehensive income (see Note 15).

### 10.2 Lease Liabilities

The movements in the lease liabilities recognized in the consolidated statements of financial position as of December 31 are as follows:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Balance at beginning of year	<b>P 26,033,716</b>	P 44,129,037	P 15,327,321
Repayments of lease liabilities	( 26,964,259)	( 26,965,095)	( 43,036,524)
Interest accretion	<b>930,543</b>	2,128,500	3,748,678
Modification of lease	-	6,741,274	-
Additional lease liabilities	-	-	68,089,562
Balance at end of year	<b><u>P -</u></b>	<b><u>P 26,033,716</u></b>	<b><u>P 44,129,037</u></b>

The outstanding balance of lease liabilities is presented as Lease Liabilities under the current liabilities section of the 2020 statement of financial position (nil in 2021).

The use of extension and termination options gives the Group added flexibility in the event it has identified more suitable premises in terms of cost and/or location or determined that it is advantageous to remain in a location beyond the original lease term. An option is only exercised when consistent with the Group's regional markets strategy and the economic benefits of exercising the option exceeds the expected overall cost.

In 2020, the Group received a refund equivalent to three months' worth of monthly rent, resulting to a modification of the lease liabilities. There were no modifications to the lease liabilities in 2021.

### ***10.3 Lease Payments Not Recognized as Liabilities***

The Group has elected not to recognize a lease liability for short-term leases. Payments made under such leases are expensed on a straight-line basis.

The expenses relating to short-term leases amounted to P18.6 million both in 2021 and 2020 and P2.6 million in 2019, which are presented as Rentals under Other Operating Expenses in the consolidated statements of profit or loss (see Notes 15 and 19.3)

### ***10.4 Additional Profit or Loss and Cash Flow Information***

The total cash outflow in respect of leases amounted to P27.0 million both in 2021 and 2020 and P43.0 million in 2019. Interest expense in relation to lease liabilities amounted to P0.9 million, P2.1 million and P3.7 million in 2021, 2020 and 2019, respectively, is presented as part of Finance Costs in the consolidated statements of profit or loss (see Note 17.1).

## **11. INVESTMENT PROPERTIES**

The Group's investment properties amounting to P625.7 million as of December 31, 2021 and 2020, represent parcels of land held primarily for capital appreciation but not for sale in the ordinary course of business or use in the production or supply of goods or services or for administrative purposes.

In 2020, the investment properties owned by LHC, amounting to P303.4 million, were reclassified to Assets Held for Sale as of December 31, 2021 (see Note 12). The depreciation and amortization from investment properties classified as Assets Held for Sale amounted to P2.4 million in 2021 and P5.8 million in both 2020 and 2019, respectively, and is presented as part of Net Loss After Tax from Discontinued Operations in the consolidated statement of profit or loss (see Note 12).

The real property taxes on investment properties amounted to P1.1 million in both 2021 and 2020, and P1.7 million in 2019. These are reported as part of Taxes and licenses under Other Operating Expenses in the consolidated statements of profit or loss (see Note 15).

In October 2019, the Group sold certain investment properties with carrying amount of P4.2 million for a total consideration of P6.7 million. The resulting gain on sale of investment properties, net of taxes and other direct costs of disposal, amounting to P2.5 million in 2019 is presented as Gain on Sale of Investment Properties in the 2019 consolidated statement of profit or loss. There was no similar transaction in 2021 and 2020.



As determined by independent and SEC-accredited property appraisers, the total fair market values of these investment properties as of October 2021 amounted to P6.5 billion (see Note 26.3). The Company's management assessed that the latest appraisal made holds the same fair market values as of December 31, 2021. It is the Company's policy to obtain an appraisal from an independent property appraiser every three years.

The Group's management believes that the investment properties are not impaired as the fair value of these properties disclosed in Note 26.3 as of the end of the reporting periods exceeds their carrying amounts as reported in the consolidated statements of financial position.

## 12. ASSETS HELD FOR SALE

In December 2020, the Group decided to sell its ownership interest in LHC (see Note 7). As a result, the related assets and liabilities of LHC as of December 31, 2020 are presented as Assets Held for Sale and Liabilities Attributable to Assets Held for Sale, respectively, in the 2020 consolidated statement of financial position while the results of operations of LHC are presented as Net Loss After Tax from Discontinued Operations in the consolidated statements of profit or loss.

The results of operations of LHC are as follows (see Note 21.5):

	2021 (Five months)	2020 (One year)	2019 (One year)
Income	P 537	P 642,227	P 35,585
Other operating expenses	( 9,137,370)	( 22,266,876)	( 22,866,987)
Losses from discontinued operations before tax	( 9,136,833)	( 21,624,649)	( 22,831,402)
Tax income (expense)	( 1,054,550)	6,267,791	6,852,979
Net loss after tax from discontinued operations	(P 10,191,383)	(P 15,356,858)	(P 15,978,423)
Attributable to:			
Parent company	(P 7,761,757)	(P 11,696,386)	(P 12,169,794)
Non-controlling interest	( 2,429,626)	( 3,660,472)	( 3,808,629)
	(P 10,191,383)	(P 15,356,858)	(P 15,978,423)

The assets and liabilities of LHC classified as held for sale as of December 31, 2020 are as follows:

<i>Assets</i>	
Cash in bank	P 210,713
Prepayments and other current assets	1,188,515
Property and equipment - net	68,377,291
Investment properties - net	303,368,593
Deferred tax asset	20,032,710
Other non-current assets	<u>158,000,000</u>
Assets held for sale	551,177,822
<i>Liabilities</i>	
Accrued expenses and other payables representing liabilities attributable to assets held for sale	( <u>530,446</u> )
Net assets directly associated with disposal group	<u>P 550,647,376</u>

The related cash flows arising from LHC's activities follow.

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Net cash used in operating activities	(P 3,061,830)	(P 6,172,292)	(P 6,296,645)
Net cash from (used in) investing activities	6,900,000	6,000,000	( 162,910,000)
Net cash from financing activities	<u>-</u>	<u>447</u>	<u>6,256</u>
Cash flows from (used in) discontinued operations	<u>P 3,838,170</u>	<u>(P 171,845)</u>	<u>(P 169,200,389)</u>

On June 17, 2021, the Group has sold all its ownership in LHC to an external party at net book value amounting to P541.5 million at the date of disposal for net consideration of P805.1 million. The sale also resulted to the derecognition of non-controlling interest attributed to LHC amounting to P48.4 million at the date of disposal (see Note 21.5). The resulting gain amounted to P312.0 million is presented as Gain on Sale and Deconsolidation of Subsidiary in the 2021 statement of profit or loss.

Management assessed that the recoverable amount from Assets Held for Sale is greater than the original cost and carrying value of the investment; thus, the amount recognized as Assets Held for Sale in the 2020 consolidated statement of financial position is equal to the carrying amounts as of December 31, 2020.

### 13. TRADE AND OTHER PAYABLES

This account includes the following as at December 31:

	Notes	2021	2020
Trust receipts payable		<b>P 160,696,218</b>	P 142,255,338
Accrued expenses and others	14	<b>33,721,655</b>	17,871,565
Trade payables	19.1	<b>26,302,800</b>	14,680,955
Output VAT payable		<b>211,516</b>	2,919,009
		<b><u>P 220,932,189</u></b>	<b><u>P 177,726,867</u></b>

The Group avails of trust receipt facilities with local banks which are used to finance the Group's purchases of inventories. These short-term trust receipts, which are secured by the related inventories, bear interests based on prevailing market interest rates of 2.4% in 2021, 2.8% in 2020, and 3.0% to 4.3% in 2019 and have a maturity of one to 12 months. Interest expense incurred on these transactions in 2021, 2020 and 2019 amounted to P4.0 million, P5.0 million and P2.5 million, respectively, and is presented as part of Finance Costs in the consolidated statements of profit or loss (see Note 17.1).

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

### 14. LOANS PAYABLE

This account includes the following as at December 31:

	2021	2020
Current	<b>P 1,211,079,144</b>	P 1,840,140,828
Non-current	<b>-</b>	333,040,884
	<b><u>P 1,211,079,144</u></b>	<b><u>P 2,173,181,712</u></b>

A reconciliation of the movements in the amount of loans payable at the beginning and end of each year is presented below:

	2021	2020	2019
Cash from financing activities:			
Balance at beginning of year	<b>P 2,173,181,712</b>	P 2,573,876,996	P 2,375,453,488
Settlements during the year	<b>( 1,068,000,000)</b>	( 400,000,000)	( 850,000,000)
Availments during the year	<b>105,000,000</b>	-	1,045,000,000
Additional debt issue cost	<b>( 7,462,500)</b>	( 2,137,398)	-
	<b>1,202,719,212</b>	2,171,739,598	2,570,453,488
Noncash financing activity –			
Amortization of debt issue cost	<b>8,359,932</b>	1,442,114	3,423,508
	<b><u>P 1,211,079,144</u></b>	<b><u>P 2,173,181,712</u></b>	<b><u>P 2,573,876,996</u></b>

Short-term loans are subject to interest rates ranging from 4.0% to 4.25% in 2021, 4.1% to 4.7% in 2020, and 4.7% to 5.0% in 2019, and are acquired for working capital requirements. On average, the short-term loans fall due every three to six months and are subject to roll over unless otherwise settled by the Group.

The long-term loan, which was originally acquired in April 2017, is subject to 4.8% interest annually and is payable in 12 equal quarterly payments beginning June 2019. In 2021 and 2020, additional payment was made by the Company amounting to P668.0 million and P280.0 million, respectively. The outstanding balance as of December 31, 2021 is expected to be settled in 2022.

The details of the non-current bank loans as of December 31, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Principal amount	<b>P 2,000,000,000</b>	P 2,000,000,000
Debt issue cost	<b>( 10,000,000)</b>	( 10,000,000)
Net amount	<b>1,990,000,000</b>	1,990,000,000
Settlement in prior years	<b>( 1,000,000,000)</b>	( 720,000,000)
Reclassification to current portion	<b>( 331,707,551)</b>	( 666,081,769)
Settlement during the year	<b>( 668,000,000)</b>	( 280,000,000)
Debt issue cost on current portion of loan	<b>( 292,449)</b>	( 584,898)
Amortization of debt issue cost	<b><u>10,000,000</u></b>	<u>9,707,551</u>
	<b><u>P -</u></b>	<b><u>P 333,040,884</u></b>

Interest expense incurred on these loans in 2021, 2020 and 2019 amounted to P76.8 million, P109.8 million and P116.9 million, respectively, and is presented as part of Finance Costs in the consolidated statements of profit or loss (see Note 17.1). Accrued interest on these loans were recognized in 2021 and 2020 amounting to P0.6 million and P5.2 million, respectively, and is presented as part of Accrued expenses and others under Trade and Other Payables in the consolidated statements of financial position. (see Note 13). The documentary stamp tax (DST) related to the loans payable amounted to P7.5 million, P6.7 million and P11.4 million in 2021, 2020, and 2019, respectively, and is presented as part of Finance Costs in the consolidated statement of profit or loss (see Note 17.1). DST amounting to P0.9 million and P1.8 million was also included as part of the debt issue cost and will be amortized over the remaining terms of loans as of December 31, 2021 and 2020, respectively.

As of December 31, 2021 and 2020, the Group's long-term was secured by an investment property owned by an associate (see Note 19.5). Other outstanding loans as of December 31, 2021 and 2020 were availed using its credit line facility wherein no collateral is needed. The Group's outstanding loan with the banks is not subject to any loan covenant.

## 15. OPERATING EXPENSES BY NATURE

These operating expenses, based on their nature, are broken down as follows:

	Notes	2021	2020	2019
Change in finished goods inventories		<b>P 514,288,860</b>	P 605,467,706	P 862,799,109
Salaries and employee benefits	18.1	<b>45,275,532</b>	41,677,211	35,115,243
Depreciation and amortization	8.3, 9 10.1	<b>31,110,997</b>	30,835,694	46,698,120
Rentals	10.3, 19.3	<b>18,602,679</b>	18,602,679	2,612,250
Provision for inventory writedown	6	<b>17,652,507</b>	28,775,726	22,397,029
Security services		<b>10,255,183</b>	6,772,060	8,574,993
Professional fees		<b>9,726,917</b>	11,815,887	12,692,015
Taxes and licenses	11	<b>7,882,565</b>	16,351,946	53,615,482
Representation		<b>5,759,426</b>	6,669,179	13,760,529
Transportation and travel		<b>5,729,245</b>	6,468,756	12,871,291
Insurance		<b>5,576,981</b>	4,772,490	7,126,973
Office supplies		<b>5,253,489</b>	4,458,914	3,018,059
Trainings and seminar		<b>2,896,828</b>	3,718,405	2,460,278
Medical		<b>2,064,917</b>	923,749	3,532,949
Utilities		<b>1,904,630</b>	2,195,379	4,369,182
Repairs and maintenance		<b>1,635,059</b>	1,239,772	1,739,890
Donations		<b>550,000</b>	139,525	1,537,152
Dues and subscription		<b>317,480</b>	309,103	337,357
Impairment loss on receivables	5	-	42,319	-
Others		<b>8,141,954</b>	13,907,052	24,592,560
		<b><u>P 694,625,249</u></b>	<b><u>P 805,143,552</u></b>	<b><u>P 1,119,850,461</u></b>

These expenses are classified in the consolidated statements of profit or loss as follows:

	2021	2020	2019
Cost of goods sold	<b>P 531,941,367</b>	P 634,243,432	P 885,196,138
Cost of services	<b>1,087,827</b>	600,000	2,400,000
Others operating expenses	<b><u>161,596,055</u></b>	<u>170,300,120</u>	<u>232,254,323</u>
	<b><u>P 694,625,249</u></b>	<b><u>P 805,143,552</u></b>	<b><u>P 1,119,850,461</u></b>

The details of cost of goods sold is shown below (see Notes 6 and 19.1).

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Inventory at beginning of year	<b>P 894,472,936</b>	P 1,004,347,655	P 1,075,566,518
Purchases	<b>413,656,581</b>	523,370,527	827,574,852
Inventory at end of year	<b>( 776,372,902)</b>	( 894,472,936)	( 1,004,347,655)
	<b>531,756,615</b>	633,245,246	898,793,715
Provision for inventory writedown	<b>17,652,507</b>	28,775,726	22,397,029
Reversal of inventory writedown	<b>( 17,467,755)</b>	( 27,777,540)	( 35,994,606)
	<b><u>P 531,941,367</u></b>	<u>P 634,243,432</u>	<u>P 885,196,138</u>

## 16. OTHER OPERATING INCOME

The Group earns rental income from the leasing management of property to third party tenants. The leased property is owned by JHC, for which the Group was granted a full right of usufruct to JHC's property (see Note 19.7). Income generated from the property amounted to P24.0 million, P32.0 million, P31.8 million in 2021, 2020 and 2019, respectively (see Note 22.1).

In 2021, 2020 and 2019, the Group also earned income from non-obstruction agreement amounting to P3.6 million, P3.9 million and P3.7 million, respectively.

Further, the Parent Company also earned miscellaneous income from referral on trade sales amounting to P1.0 million and P1.5 million in 2021 and 2020, respectively. There was no similar transaction in 2019.

Other operating income also includes recovery of allowance for impairment of receivables and management fees from a service agreement with certain related parties under common ownership and an associate (see Notes 5 and 19.4).

## 17. FINANCE INCOME (COSTS)

### 17.1 Finance Costs

The Group's finance costs consist of the following:

	Notes	2021	2020	2019
Interest expense from:				
Interest-bearing loans	14	<b>P 76,825,933</b>	P 109,758,016	P 116,908,533
Trust receipts payable	13	<b>4,022,372</b>	4,996,554	2,501,700
Lease liabilities	10.4	<b>930,543</b>	2,128,500	3,748,678
Post-employment defined benefit plan	18.2(b)	<b>332,805</b>	311,165	414,128
		<b>82,211,653</b>	117,194,235	123,573,039
DST on interest-bearing loans	14	<b>7,462,500</b>	6,667,321	11,433,548
Day-one loss on discounting	8.1	<b>43,562,005</b>	-	-
		<b>P 133,136,158</b>	P 123,861,556	P 135,006,587

### 17.2 Finance Income

Finance income includes the following:

	Note	2021	2020	2019
Foreign currency gains – net		<b>P 8,595,053</b>	P 6,229,209	P 5,051,303
Interest income from:				
Banks	4	<b>237,410</b>	523,413	2,206,525
Investment securities		-	-	13,644,255
Others – net		-	-	489,480
		<b>P 8,832,473</b>	P 6,752,622	P 21,391,563

In prior years, the Parent Company held investments pertaining to cumulative, non-voting, class B preferred shares of an entity listed with the PSE. The shares, which was carried in the Group's books as an investment in equity securities at amortized cost, bear fixed interest rate of 5.6% per annum and carries a maturity date of November 5, 2024, with the Parent Company holding the option to redeem the investment prior to maturity date beginning November 5, 2019. In 2019, the Parent Company redeemed the investment, resulting in a gain on redemption amounting to P0.5 million, which is presented as part of Others – net under Finance Income in the 2019 consolidated statement of profit or loss. Prior to redemption, the Parent Company earned returns from the investment amounting to P13.6 million both in 2019 and 2018. There was no similar transaction in 2021 and 2020.

## 18. EMPLOYEE BENEFITS

### 18.1 Salaries and Employee Benefits Expense

Expenses recognized for salaries and employee benefits, which were presented as part of Other Operating Expenses, are presented below.

	Notes	2021	2020	2019
Short-term benefits		P 44,237,522	P 41,092,246	P 34,737,629
Post-employment benefits	18.2(a)	<u>1,038,010</u>	<u>584,965</u>	<u>377,614</u>
	15	<u>P 45,275,532</u>	<u>P 41,677,211</u>	<u>P 35,115,243</u>

### 18.2 Post-employment Defined Benefit Plan

#### (a) Characteristics of the Defined Benefit Plan

The Group, at present, has no formal, tax-qualified retirement plan. The Group accrues post-employment benefit based on the provisions of RA No. 7641, *The Retirement Pay Law*, in accordance with the projected unit credit method wherein actuarial valuations are made with sufficient regularity to update the retirement benefit costs.

The normal retirement age is 60 with a minimum of 5 years of credited service. The plan also provides for an early retirement at age 50 with a minimum of 5 years of credited service and late retirement after age 60, both subject to the approval of the Group's BOD. Normal retirement benefit is an amount equivalent to 85% of the final monthly covered compensation (average monthly basic salary during the last 12 months of credited service) for every year of credited service.

Actuarial valuations are made annually to update the retirement benefit costs. All amounts presented below and in the succeeding pages are based on the actuarial valuation report obtained from an independent actuary in 2021 and 2020.

The amounts of post-employment defined benefit obligation recognized in the consolidated statements of financial position amounts to P8.6 million and P9.0 million as of December 31, 2021 and 2020, respectively.

Following are the amounts and movements in the present value of post-employment defined benefit obligation recognized in the consolidated statements of financial position.

	2021	2020
Balance at beginning of year	P 9,019,095	P 6,260,859
Current service cost	1,038,010	584,965
Interest cost	332,805	311,165
Benefits paid	( 812,149 )	( 439,341 )
Remeasurements –		
Actuarial losses (gains) arising from:		
Experience adjustments	( 1,309,824 )	1,161,435
Change in demographic Assumptions	587,731	-
Changes in financial assumptions	( 259,643 )	1,140,012
Balance at end of year	<u>P 8,596,025</u>	<u>P 9,019,095</u>



The components of amounts recognized in profit or loss and in other comprehensive loss (income) in respect of the defined benefit post-employment plan are as follows:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
<i>Reported in profit or loss:</i>			
Current service cost	<b>P 1,038,010</b>	P 584,965	P 377,614
Interest cost	<u><b>332,805</b></u>	<u>311,165</u>	<u>414,128</u>
	<u><b>P 1,370,815</b></u>	<u>P 896,130</u>	<u>P 791,742</u>
<i>Reported in other comprehensive loss (income) –</i>			
Actuarial losses (gains)			
arising from:			
Changes in financial assumptions	<b>(P 1,309,824)</b>	P 1,161,435	P 1,314,324
Changes in demographic assumptions	<b>587,731</b>	-	-
Experience adjustments	<u><b>(259,643)</b></u>	<u>1,140,012</u>	<u>(1,471,947)</u>
	<u><b>(P 981,736)</b></u>	<u>P 2,301,447</u>	<u>(P 157,623)</u>

Current service cost is included as part of Salaries and wages under Other Operating Expenses in the consolidated statements of profit or loss (see Note 15).

The interest cost is included as part of Finance Costs in the consolidated statements of profit or loss (see Note 17.1).

Amounts recognized in other comprehensive income (loss) were included within items that will not be reclassified subsequently to profit or loss.

In determining the retirement benefit obligation, the following actuarial assumptions were used:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Discount rates	<b>5.0%</b>	3.7%	5.0%
Expected salary increase rate	<b>5.0%</b>	5.0%	5.0%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working life of an individual retiring at the age of 60 is 22 for both males and females. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of zero coupon government bonds with terms to maturity approximating to the terms of the post-employment defined benefit obligation.

Other assumptions are based on current actuarial benchmarks and management's historical experience.

(b) *Risks Associated with the Retirement Plan*

The plan exposes the Group to actuarial risks such as interest rate risk, longevity risk and salary risk.

(i) *Interest Rate Risk*

The present value of the defined benefit 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.

(ii) *Longevity and Salary Risks*

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants during 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.

(c) *Other Information*

The information on the sensitivity analysis for certain significant actuarial assumptions and the timing and uncertainty of future cash flows related to the retirement plan are described in the succeeding page.

(i) *Sensitivity Analysis*

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation as of December 31, 2021 and 2020:

	<u>Impact on Post-employment Benefit Obligation</u>			
	<u>Change in Assumption</u>		<u>Increase in Assumption</u>	<u>Decrease in Assumption</u>
<b><u>December 31, 2021</u></b>				
Discount rate	+/- 1%	(P	963,799)	P 1,063,977
Salary growth rate	+/- 1%		1,050,237	( 974,173)
<b><u>December 31, 2020</u></b>				
Discount rate	+/- 1%	(P	928,696)	P 1,025,366
Salary growth rate	+/- 1%		989,198	( 924,779)

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognized in the consolidated statements of financial position. The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous years.

(ii) *Funding Arrangements and Expected Contributions*

As of December 31, 2021, the Group is yet to determine how much and when to fund its retirement benefit obligation.

The maturity profile of undiscounted expected benefit payments from the plan follows:

	<u>2021</u>	<u>2020</u>
Within one year	<b>P -</b>	P 1,062,267
More than one year to five years	<b>3,390,510</b>	1,642,574
More than five years to ten years	<b>5,459,846</b>	5,682,280
More than ten years to 15 years	<b>6,249,497</b>	5,190,305
More than 15 years to 20 years	<b><u>29,924,674</u></b>	<u>24,653,823</u>
	<b><u>P 45,024,527</u></b>	<u>P 38,231,249</u>

The weighted average duration of the post-employment benefit obligation at the end of the reporting period is 17 years.

## 19. RELATED PARTY TRANSACTIONS

The Group's related parties include its stockholders, companies under common ownership, associates and its key management personnel. The transactions with these related parties are discussed as follows:

Related Party Category	Notes	Amount of Transactions			Outstanding Balances Receivables (Payables)	
		2021	2020	2019	2021	2020
<b>Stockholders –</b>						
Lease agreements	10, 19.3	P 2,531,250	P 2,531,250	P 2,531,250	P -	P -
<b>Related Parties Under Common Ownership:</b>						
Lease agreements:	10, 19.3					
Right-of-use assets		( 10,701,391 )	( 10,701,391 )	32,104,172	10,701,391	21,402,781
Lease liabilities		8,023,038	10,328,653	( 18,351,691 )	-	( 8,023,038 )
Shared business and management services	19.4	1,744,643	1,607,143	1,796,708	-	-
Security deposit	8, 19.3	-	-	-	1,449,369	1,449,369
Sale of goods	19.1	4,821	154,375	-	-	-
Purchase of goods	19.1	328,339	527,625	1,162,022	-	( 111,496 )
Refundable deposit	19.5	-	-	315,000,000	315,000,000	315,000,000
<b>Associates:</b>						
Lease agreements:	10, 19.3					
Right-of-use assets		( 12,220,051 )	( 12,220,050 )	36,660,151	12,220,050	24,440,101
Lease liabilities		9,161,606	11,794,417	( 20,956,023 )	-	( 9,161,606 )
Security deposit	8, 19.3	-	-	-	3,201,300	3,201,300
Equity investment in associates	7	25,575,000	107,500,000	885,812,030	2,843,727,038	2,905,295,267
Advances granted	5, 19.2	-	3,927	( 31,134 )	-	4,728
Shared business and management services	19.4	-	46,250,000	61,160,174	-	21,651,786
Refundable deposit	19.5	-	-	( 85,941,103 )	456,771,191	456,771,191
Advances for investment property purchase	19.7	( 270,800,000 )	-	( 139,200,000 )	365,000,000	635,800,000
<b>Key Management Personnel –</b>						
Short-term benefits	19.6	22,584,508	22,688,302	12,685,599	-	-
Post-employment benefits	19.6	594,664	1,387,108	604,013	-	-

The Group's outstanding receivables with related parties were subjected to impairment using the requirements of PFRS 9. These receivables have substantially the same risk characteristics as trade receivables. As such, the expected loss rates for trade receivables are a reasonable approximation of the loss rates for receivables from related parties. There were no impairment losses recognized for these receivables from related parties in 2021, 2020 and 2019 [see Note 23.2(b)].

### **19.1 Sale and Purchase of Goods**

In 2021 and 2020, the Parent Company sold goods to a certain related party under common ownership in the regular course of business and was reported as part of Sale of Goods in the 2021 and 2020 consolidated statements of profit or loss. There are no outstanding balances related from these transactions as of December 31, 2021 and 2020, and no similar transactions occurred in 2019.

The Group also purchased goods from certain related parties which are presented as part of Cost of Goods Sold in the consolidated statements of profit or loss (see Note 15). The outstanding balance arising from this transaction as of December 31, 2020 is unsecured, noninterest-bearing, and payable in cash and is reported as part of Trade payables under Trade and Other Payables in the 2020 consolidated statement of financial position (see Note 13). There were no outstanding payable as of December 31, 2021.

### **19.2 Advances from/to Related Parties**

The Group also grants advances to associates which is unsecured, noninterest-bearing and payable in demand or through offsetting arrangements. The outstanding receivable is presented as part of Due from associate under Trade and Other Receivables in the consolidated statements of financial position (see Note 5).

### **19.3 Lease Agreements**

The Group, as a lessee, entered into operating lease agreements with terms of two to four years, covering certain warehouses owned by certain related parties. The lease is renewable upon mutual agreement by both parties.

Rental expense which relate to capitalized cost of the right-of-use assets and lease liabilities are subsequently recorded as part of Depreciation and amortization under Other Operating Expense in the in the consolidated statements of profit or loss. On the other hand, Rental expense for short-term leases are presented as part of Rentals under Other Operating Expense in the consolidated statements of profit or loss (see Notes 10 and 15). Deposits made on these lease agreements are presented as part of Prepaid expenses under Prepayments and Other Current Assets in the consolidated statements of financial position (see Note 8).

### **19.4 Shared Business and Management Services**

SBS Holdings entered into a consultancy service agreement with certain related parties under common ownership and an associate wherein the former shall provide certain administrative services for a fee. Such transaction is recognized as part of Consultancy Income in the 2020 and 2019 consolidated statements of profit or loss. The related outstanding balances as of December 31, 2020 amounting to P21.7 million, which are unsecured, noninterest-bearing, and payable on demand, is presented as part of Trade receivables under Trade and Other Receivables in the 2020 consolidated statement of financial position (see Note 5). The amount was full collected in 2021, and there was no similar transaction in 2021 and outstanding balance as of December 31, 2021.

The Group entered into a service agreement with its related parties under common ownership wherein the former shall provide certain operational, management and administrative services for a fee. Management fees charged by the Group are recognized under the Other Operating Income in the consolidated statements of profit or loss (see Note 16). There is no outstanding receivable from this transaction as of December 31, 2021 and 2020.

### 19.5 Memorandum of Agreement

In 2018, the Parent Company entered into a memorandum of agreement with SPHC, wherein the Parent Company will assist in gathering investors to cover SPHC's increase in capitalization. As part of the agreement, SPHC also used its property in the mortgage substitution to continue securing one of the Parent Company's loans (see Note 14). The related performance deposit amounting to P500.0 million is presented as part of Refundable deposits under Other Non-current Assets in the consolidated statements of financial position (see Note 8) and will be refunded once the Parent Company has already gathered the investors. The transaction was initially expected to be consummated in 2019. However, due to the pandemic, both parties agreed to extend the performance obligation. In 2019, a portion of the deposit amounting to P46.3 million was collected and used in acquiring shares in SPHC (see Note 8).

In 2019, the Group also entered in a memorandum of agreement with Betterfield Holdings Corp. (BHC), a related party under common ownership. The related deposit amounting to P315.0 million, which is also presented under Other Non-current Assets in the consolidated statements of financial position (see Note 8), may be refunded to the Group or may be used to exercise pre-emptive rights to subscribe to new unissued shares at par value upon BHC's application for an increase in authorized capital stock.

### 19.6 Key Management Personnel

Payments received by key management personnel pertain to compensation and service fees in 2021, 2020 and 2019 which are presented under Other Operating Expenses in the consolidated statements of profit or loss (see Note 15). There were no outstanding service fees in 2021, 2020 and 2019. The outstanding balance of the key management post-employment benefits is presented as part of Post-employment Defined Benefit Obligation in the consolidated statements of financial position.

Benefits given to key management personnel are broken down as follows:

	<u>2021</u>		<u>2020</u>		<u>2019</u>
Short-term benefits	<b>P 22,584,508</b>	P	22,688,302	P	12,685,599
Post-employment benefits	<u><b>594,664</b></u>		<u>1,387,108</u>		<u>604,013</u>
	<u><b>P 23,179,172</b></u>	P	<u>24,075,410</u>	P	<u>13,289,612</u>

### 19.7 Others

In 2018, the Group made certain noninterest-bearing advance payments to a third party on behalf of an associate, representing transactions costs incurred for the associate's purchase of certain property owned by the third party. Total costs amounting to P775.0 million, shall be reimbursed in full to the Group upon completion of the transaction. However, there has been some delay in the processing of the sale of properties due to COVID-19, which had slowed down the document processing of many establishments and government agencies. As agreed by both parties, the settlement has been extended, and the transaction is expected to be completed within 2022. As a result, the management assessed that the receivable will be collected within twelve months after the end of the reporting period. The outstanding receivable is presented as Non-trade receivable under Trade and Other Receivables in the consolidated statements of financial position (see Note 5).

Movement of this account is shown below.

	<u>2021</u>	<u>2020</u>
Balance at beginning of year	<b>P 635,800,000</b>	P 635,800,000
Payments received during the year	<b>( 270,800,000)</b>	-
Balance at end of year	<b><u>P 365,000,000</u></b>	<u>P 635,800,000</u>

On November 11, 2017, SBS Holdings was granted a full right of usufruct over the real estate property of JHC. The usufruct includes collection of fees or service charges from third party tenants of the real estate property for the purpose of upkeep, maintenance, operation and management of such property. SBS Holdings shoulders the costs of operation and maintenance of the property. Revenue arising from this agreement presented as part Other Operating Income in the consolidated statements of profit or loss (see Note 16). In relation to such agreement, the Group also received security deposits from the tenants, which are to be returned to the counterparties at the end of the lease term. These security deposits are presented under non-current liabilities section of the consolidated statements of financial position.

## 20. TAXES

On March 26, 2021, RA No. 11534, *Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act*, as amended, was signed into law and shall be effective beginning July 1, 2020. The CREATE Act aims to lower certain corporate taxes and rationalize tax incentives given to certain taxpayers. The following are the major changes brought about by the CREATE Act that are relevant to and considered by the Company:

- regular corporate income tax (RCIT) rate is decreased from 30% to 25% starting July 1, 2020;
- minimum corporate income tax (MCIT) rate is decreased from 2% to 1% starting July 1, 2020 until June 30, 2023; and
- the allowable deduction for interest expense is reduced from 33% to 20% of the interest income subjected to final tax.

As a result of the application of the lower RCIT rate of 25% starting July 1, 2020, the current income tax expense, as presented in the 2020 annual income tax return of the Company, was lower by P2.1 million than the amount presented in the 2020 financial statements and such amount was charged to 2021 profit or loss.

Also, in 2021, the recognized net deferred tax assets as of December 31, 2020 was remeasured to 25%. This resulted in a net decrease in the recognized deferred tax assets in 2020 by P0.6 million and such was recognized as reduction in the 2021 profit or loss amounting to P0.3 million and reduction in the 2021 other comprehensive income amounting to P0.3 million.

The components of tax expense are presented as follows:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
<i>Reported in profit or loss:</i>			
Current tax expense:			
Final tax at 15% and 20% RCIT at 25% in 2021 and 30% in 2020 and 2019	<b>P 41,589,639</b>	P 6,304	P 287,780
Adjustment in 2020 income taxes due to change in income tax rate	<b>( 2,100,338)</b>	-	-
Excess of MCIT at 2% over RCIT	<u>-</u>	<u>286,549</u>	<u>-</u>
	<u><b>59,576,504</b></u>	<u>21,952,817</u>	<u>13,270,091</u>
Deferred tax expense (income) relating to:			
Effect of change in income tax rate	<b>347,853</b>	-	-
Origination and reversal of temporary differences	<u><b>38,560</b></u>	<u>8,107,370</u>	<u>( 6,487,980)</u>
	<u><b>386,413</b></u>	<u>8,107,370</u>	<u>( 6,487,980)</u>
	<u><b>P 59,962,917</b></u>	<u>P 30,060,187</u>	<u>P 6,782,111</u>
<i>Reported in other comprehensive income –</i>			
Deferred tax expense (income) relating to:			
Effect of change in income tax rate	<b>P 291,479</b>	P -	P -
Origination and reversal of other temporary differences	<u><b>245,434</b></u>	<u>( 690,434)</u>	<u>47,287</u>
	<u><b>P 536,913</b></u>	<u>(P 690,434)</u>	<u>P 47,287</u>

The reconciliation of tax on pretax profit computed at the applicable statutory rates to tax expense reported in the profit or loss is presented below.

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Tax on pretax profit at 25% in 2021 and 30% in 2020 and 2019	<b>P 62,647,271</b>	P 223,676,703	P 14,318,918
Adjustment for items subject to other tax rates	<b>( 25,645,596)</b>	-	-
Effect of change in income tax rate	<b>( 1,752,485)</b>	( 336,704)	1,128,563
Tax effect of:			
Non-deductible expenses	<b>24,712,727</b>	8,288,503	3,253,592
Non-taxable income	-	( 208,103,517)	( 2,488,649)
Reversal of net deferred tax assets	-	6,535,202	-
Other special deductions	<u>-</u>	<u>-</u>	<u>( 9,430,313)</u>
Tax expense	<u><b>P 59,961,917</b></u>	<u>P 30,060,187</u>	<u>P 6,782,111</u>

The net deferred tax assets attributable to continuing operations relate to the following as of December 31:

	Statement of		Statement of Comprehensive Income					
	Financial Position		Profit or Loss			Other Comprehensive Loss		
	2021	2020	2021	2020	2019	2021	2020	2019
Deferred tax assets:								
Accumulated actuarial loss on retirement plan	P 1,211,961	P 1,748,874	P -	P -	P -	(P 536,913)	P 690,434	(P 47,287)
Retirement benefit obligation	937,045	956,854	( 19,809)	137,037	237,524	-	-	-
Accrual of salaries	383,772	230,263	153,509	230,263	-	-	-	-
Leases	103,887	215,162	( 111,275)	215,162	-	-	-	-
Allowance for ECL on trade and other receivables	98,461	145,600	( 47,139)	12,696	-	-	-	-
Excess of MCIT over RCIT	-	286,549	( 286,549)	286,549	-	-	-	-
Unrealized foreign currency loss – net	-	-	-	( 1,273,820)	1,273,819	-	-	-
Share in net loss of associates	-	-	-	( 31,939,023)	4,909,368	-	-	-
	<u>2,735,126</u>	<u>3,583,302</u>	<u>( 311,263)</u>	<u>( 32,331,135)</u>	<u>6,420,711</u>	<u>( 536,913)</u>	<u>690,434</u>	<u>( 47,287)</u>
Deferred tax liabilities:								
Unrealized foreign currency gain – net	( 1,255,206)	( 1,180,056)	( 75,150)	( 1,180,056)	307,432	-	-	-
Share in net income of associates	-	-	-	25,403,821	( 240,163)	-	-	-
currency gain – net	<u>( 1,255,206)</u>	<u>( 1,180,056)</u>	<u>( 75,150)</u>	<u>24,223,765</u>	<u>67,269</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Deferred Tax Assets	<u>P 1,479,920</u>	<u>P 2,403,246</u>						
Deferred Tax Income (Expense)			<u>(P 386,413)</u>	<u>(P8,107,370)</u>	<u>P 6,487,980</u>	<u>(P 536,913)</u>	<u>P 690,434</u>	<u>(P 47,287)</u>

The deferred tax asset attributable to discontinued operations amounted to P20.0 million as of December 31, 2020 relates to net operating loss carryover. The deferred tax income attributable to discontinued operations in 2020 and 2019 amounted to P6.3 million and P6.9 million, respectively.

The Group is subject to MCIT which is computed at 1% in 2021 and 2% in 2020 and 2019 of gross income net of allowable deductions, as defined under the tax regulations or the RCIT, whichever is higher. In 2021 and 2019, the Group recognized RCIT as the RCIT is higher than the MCIT in those years. In 2020, the Parent Company was subjected to MCIT as it is higher than the RCIT while SBS Holdings was subjected to RCIT.

In 2021, 2020 and 2019, the Group opted to claim itemized deductions in computing its income tax due.

## 21. EQUITY

### 21.1 Capital Stock

The authorized capital stock of the Group is P1,550,000,000 consisting of 1,550,000,000 common shares with a par value of P1.00 per share. A total of 1,549,999,999 common shares are subscribed and outstanding as of December 31, 2021 and 2020, respectively.

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



On June 9, 2017, the shareholders representing at least 2/3 of the outstanding capital stock of the Group approved the declaration of stock dividends at the rate of 1 common share for every 25 common shares owned by stockholders of record as of June 23, 2017 (or approximately up to 48.0 million common shares) with any resulting fractional shares to be dropped. The issuance of the stock dividends is an exempt transaction under the Revised Securities Regulation Code, and do not require any written confirmation of exemption from the SEC. Subsequently, on July 17, 2017, such dividends amounting to P288.5 million were distributed to stockholders, P48.0 million of which consisting of 47,999,999 common shares at P1 par value per share were distributed and the remaining P240.5 million was recognized as part of APIC.

On June 23, 2017, all of the treasury shares outstanding as of that date were sold by way of a block sale through the facilities of the PSE at an agreed price of P6.50 per share. The price represents a premium of 2.85% from its last traded price of P6.32 as of the close of trading on June 22, 2017 and 2.05% premium over the 5-day volume weighted average price of P6.3696 from June 21, 2017. The treasury shares were reissued above its acquisition cost, resulting in APIC of P2.3 million.

On December 22, 2017, a total of 302,000,000 common shares of the Group with par value of P1 per share was listed under the Main Board of the PSE by way of stock rights offering (SRO) at an offer price of P4.67 per Rights Share, which was previously approved by the SEC and the Parent Company's BOD on July 14, 2017 and September 25, 2017, respectively. The SRO resulted to recognition of APIC amounting to P1,101.6 million, net of SRO-related expenses amounting to P7.0 million.

As of December 31, 2021 and 2020, the total number of registered stockholders based on the records of the Group's Stock and Transfer Agent is 11, at both dates, with the shares held in the name of PCD Nominee Corporation belonging to 98 participants in 2021 and 2020 under Philippine Depository & Trust Corp. The Group's listed shares closed at P4.10 per share as of December 29, 2021 (the last trading day in 2021) and P5.60 per share as of December 29, 2020 (the last trading day in 2020).

## 21.2 Revaluation Reserves

The reconciliation of items of other comprehensive income (loss) arising from remeasurements of the post-employment defined benefit obligation and as presented in the statements of changes in equity at their aggregate amount under Revaluation Reserves, are shown below.

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Balance at beginning of year	P 4,080,708	P 2,469,695	P 2,580,031
Remeasurements	( 1,307,221)	2,301,447	( 157,623)
Tax expense (income)	<u>618,284</u>	( 690,434)	<u>47,287</u>
Other comprehensive loss (income) after tax	( <u>688,937</u> )	<u>1,611,013</u>	( <u>110,336</u> )
Balance at end of year	<u>P 3,391,771</u>	<u>P 4,080,708</u>	<u>P 2,469,695</u>

### 21.3 Retained Earnings

The Parent Company declared cash dividends as follows:

	<u>Amount per Share</u>	<u>Total Dividend Declared</u>
June 25, 2021	P <u>0.022</u>	P <u>34,100,000</u>
March 29, 2019	P <u>0.022</u>	P <u>34,100,000</u>

The Parent Company did not declare cash dividends in 2020.

### 21.4 Earnings per Share

Basic and diluted EPS are computed as follows:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Net profit attributable to shareholders of the Parent Company	<b>P 186,738,121</b>	P708,676,091	P 18,757,706
Divided by the weighted average number of outstanding common shares	<b><u>1,549,999,999</u></b>	<u>1,549,999,999</u>	<u>1,549,999,999</u>
Basic and diluted earnings (loss) per share from:			
Continuing operations	<b>0.120</b>	P 0.457	0.012
Discontinued operations	( <b><u>0.007</u></b> )	( <u>0.010</u> )	( <u>0.010</u> )
	<b><u>P 0.114</u></b>	<u>P 0.447</u>	<u>P 0.002</u>

For the years ended December 31, 2021, 2020 and 2019, the Group has no dilutive potential common shares in the consolidated financial statements.

### 21.5 Material Non-controlling Interest

Non-controlling interest pertains to 55% and 24% ownership of minority stockholders in SBS Holdings and LHC, respectively. Despite loss of majority stockholdings, management determined that the Parent Company has the ability to influence the majority of SBS Holdings' stockholdings as the next most significant stockholder of the subsidiary is the Ultimate Parent Company (see Note 1.1).

The financial information of SBS Holdings and LHC is presented below.

	<u>2021</u>	<u>2020</u>	
	<u>SHEC</u>	<u>SHEC</u>	<u>LHC</u>
Revenue	<b>P 61,160,714</b>	P 44,642,857	P -
Net income (loss)	<u><b>19,864,378</b></u>	( <u>6,858,544</u> )	( <u>15,356,858</u> )
Net income (loss) attributable to non-controlling interest	<u><b>P 10,020,115</b></u>	( <u>P 4,843,653</u> )	( <u>P 3,660,472</u> )
Current assets	<b>P 175,106,978</b>	P 705,411,561	P 1,399,228
Non-current assets	<b>3,003,178,431</b>	2,460,943,005	549,778,594
Current liabilities	( <b>7,455,494</b> )	( 6,834,890 )	( 530,446 )
Non-current liabilities	( <u><b>12,141,948</b></u> )	( <u>7,690,253</u> )	-
Net assets	<u><b>P3,158,687,967</b></u>	<u>P3,151,829,423</u>	<u>P 550,647,376</u>
Net assets attributable to non-controlling interest	<u><b>P 732,102,089</b></u>	<u>P 736,219,915</u>	<u>P 50,871,599</u>

In 2021, the Group sold its ownership interest in LHC which resulted to the derecognition of non-controlling interest attributed to LHC amounting to P48.4 million at the date of disposal (see Note 12).

The corporate information of SBS Holdings and LHC, as well as the Parent Company's stockholding thereto, is provided in Note 1.1. Further, the results of the operations of LHC is presented in Note 12.

There were no dividend declarations made by SBS Holdings and LHC for the years ended December 31, 2021 and 2020.

## 22. COMMITMENTS AND CONTINGENCIES

### 22.1 Operating Lease Commitments – Group as Lessor

Certain real properties held or managed by the Group are leased to third parties under operating lease agreements. Currently, the lease agreements have a remaining lease term of one year, with an option to renew under terms and conditions to be agreed upon by the parties. Revenues from these agreements are presented as part of Other Operating Income in the consolidated statements of profit or loss (see Note 16).

In relation to the lease agreements, the Group also received security deposits from the lessees, which is to be returned to the counterparties at the end of the lease term. The security deposits are presented under Non-current liabilities section in the consolidated statements of financial position even when the current remaining lease term is for one year as management believes a renewal of the lease terms with the lessees is fairly certain.

### 22.2 Others

There are other commitments and contingent liabilities that arise in the normal course of the Group's operations that are not reflected in the consolidated financial statements. As of the end of 2021 and 2020, management is of the opinion that losses, if any, from these items will not have a material effect on the Group's consolidated financial statements.

## 23. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks which resulted from both its operating, investing and financing activities. The Group's risk exposures are managed in close coordination with the BOD who focuses on actively securing the Group's short to medium-term cash flows by minimizing the exposure to financial markets. Long-term financial investments are managed to generate lasting returns. The most significant financial risks to which the Group is exposed to are described below and in the succeeding pages.

### 23.1 Market Risk

The Group is exposed to market risk through its use of financial instruments and specifically to foreign currency risk and interest rate risk which result from its operating, investing and financing activities.

#### (a) Foreign currency risk

Most of the Group's transactions are carried out in Philippine pesos, its functional currency. Exposures to currency exchange rates arise from the Group's overseas purchases, which are primarily denominated in United States dollars (USD). The Group also holds cash in banks denominated in USD, Japanese yen (JPY), and Euro.

To mitigate the Group's exposure to foreign currency risk, non-Philippine peso cash flows are monitored.

Foreign currency-denominated financial assets and financial liabilities, translated into Philippine pesos (PHP) at the closing rate follow:

		<u>Foreign Currency</u>		<u>Peso</u>
<b><u>December 31, 2021</u></b>				
<i>Financial assets –</i>				
Cash in banks	USD	1,768,459	P	89,791,729
	JPY	11,350,000		5,008,755
	Euro	16,465		<u>600,933</u>
				95,401,417
<i>Financial liabilities –</i>				
Trade and other payables	USD	2,008,982		<u>102,004,067</u>
				<b><u>(P 6,602,650)</u></b>
<b><u>December 31, 2020</u></b>				
<i>Financial assets –</i>				
Cash in banks	USD	3,826,178	P	183,794,268
	JPY	11,350,000		5,253,915
	Euro	55,913		<u>3,281,578</u>
				192,329,761
<i>Financial liabilities –</i>				
Trade and other payables	USD	2,961,432		<u>142,255,338</u>
				<b><u>P 50,074,423</u></b>

The table below illustrates the sensitivity of the Group's profit before tax and equity with respect to change on Philippine peso against foreign currencies exchange rates. The percentage changes in rates. These percentages have been determined based on the average market volatility in exchange rates, using standard deviation, in the previous 12 months, estimated at 99% level of confidence. The sensitivity analysis is based on the Group's foreign currency financial instruments held at the end of each reporting period. If the Philippine peso had strengthened against the foreign currencies, the effect is presented below:

	<b>Reasonably Possible Change in Rate</b>	<b>Effect in Profit Before Tax</b>	<b>Effect in Equity</b>
<b><u>December 31, 2021</u></b>			
PHP – USD	+/- 11.3%	(P 1,379,994)	(P 1,034,996)
PHP – JPY	+/- 18.9%	946,655	709,991
PHP – Euro	+/- 19.8%	<u>118,985</u>	<u>89,239</u>
		<b><u>(P 314,354)</u></b>	<b><u>(P 235,766)</u></b>
<b><u>December 31, 2020</u></b>			
PHP – USD	+/- 8.1%	P 3,364,653	P 2,355,257
PHP – JPY	+/- 13.2%	693,517	485,462
PHP – Euro	+/- 18.0%	<u>590,684</u>	<u>413,479</u>
		<b><u>P 4,648,854</u></b>	<b><u>P 3,254,198</u></b>

Conversely, if the Philippine peso had weakened by the same percentages, with all other variables held constant, the profit before tax for the years ended December 31, 2021 and 2020 would have increased and decreased, respectively by the same amounts.

(b) *Interest rate risk*

The Group's policy is to minimize interest rate cash flow risk exposures on long-term financing. At December 31, 2021 and 2020, the Group is exposed to changes in market interest rates through interest payments for its loans payable and trust receipt payable obtained from a local bank, which is subject to annual repricing. Interest rate risk on cash in banks, though based on a floating rate, is insignificant.

For the Group's loans payable, an average volatility of 1.5% has been observed during 2021 and 2020. If interest rates had increased by those rates, with all other variables held constant, the Group's profit before tax for the years ended December 31, 2021 and 2020 would have been lower by P20.6 million and P33.6 million, respectively. On the other hand, if the underlying rates had decreased by the same percentage, under the same assumptions, profit before tax would have been higher by the same amounts.

The sensitivity analysis is based on the Group's financial instruments held at the end of each reporting period that are sensitive to changes in interest rates. All other variables are held constant.

## 23.2 Credit Risk

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

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

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

	Notes	2021	2020
Cash	4	P 250,220,189	P 238,420,167
Trade and other receivables – net (excluding advances to employees)	5, 19.2	456,318,578	723,865,836
Refundable deposits	8, 19.3 19.5	<u>1,318,209,230</u>	<u>1,371,771,235</u>
		<u>P 2,024,747,997</u>	<u>P 2,334,057,238</u>

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

### (a) Cash in Banks

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

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

### (b) Trade and Other Receivables and Refundable Deposits

The Group applies the simplified approach in measuring ECL which uses a lifetime expected loss allowance for all trade and other receivables. Advances to officers and employees have been assessed separately and individually wherein management determined that there is no required ECL to be recognized since collections are made on a monthly basis or through salary deductions within a period of one year or less.

To measure the ECL, trade receivables have been grouped based on shared credit risk characteristics and the days past due (age buckets). The Group also concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the other receivables as it shares the same credit risk characteristics.

The expected loss rates are based on the payment and aging profiles over a period of 36 months before December 31, 2021 and 2020, respectively, and the corresponding historical credit losses experienced within such period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the gross domestic product in 2021 and the inflation rate in 2020 in the Philippines to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

On that basis, the loss allowance as at December 31, 2021 and 2020 was determined based on months past due, for trade and other receivables (excluding advances to employees) as follows:

		Not more than 3 mos.		More than 3 mos. but not more than 1 year		More than 1 year		Total
<b>December 31, 2021</b>								
Expected loss rate		0%		0%		100%		
Gross carrying amount	P	455,401,478	P	917,100	P	393,845	P	456,712,423
Loss allowance		-		-		393,845		393,845
<b>December 31, 2020</b>								
Expected loss rate		0%		0%		100%		
Gross carrying amount	P	723,380,586	P	485,250	P	485,334	P	724,351,170
Loss allowance		-		-		485,334		485,334

Accordingly, the Group recognized loss allowance equivalent to 0.5% and 0.8% of outstanding trade receivables as of December 31, 2021 and 2020. Management deems this estimate to be adequate and reflective of the Group's ability to collect from its customers based on a 36-month historical payment profile prior to the adoption of PFRS 9.

The Group's trade receivables are actively monitored to avoid significant concentrations of credit risk. In addition, the Group has adopted a no-business policy with customers lacking an appropriate credit history where credit records are available.

ECL allowance for refundable deposits and non-trade receivables, which are collectible from related parties were assessed based on general liquidity of the respective counterparties. No loss allowance was recognized on these financial assets as the collection is expected to be within the next 12 months based on the current standing of the counterparties and the current status of the related transactions.

### 23.3 *Liquidity Risk*

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

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

As at December 31, 2021, the Group's financial liabilities (except lease liabilities – see Note 10) have contractual maturities are presented below.

	<u>Within 6 Months</u>	<u>6 to 12 Months</u>	<u>More than 1 Year</u>
<b>2021</b>			
Loans payable	P 1,220,423,657	P -	P -
Trade and other payables	219,751,194	-	-
Security deposit	<u>-</u>	<u>-</u>	<u>5,212,253</u>
	<b><u>P 1,440,174,851</u></b>	<b><u>P -</u></b>	<b><u>P 5,212,253</u></b>
<b>2020</b>			
Loans payable	P 1,537,976,681	P 347,710,069	P 339,427,083
Trade and other payables	174,567,717	-	-
Security deposit	<u>-</u>	<u>-</u>	<u>7,690,253</u>
	<b><u>P 1,712,544,398</u></b>	<b><u>P 347,710,069</u></b>	<b><u>P 347,117,336</u></b>

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

## 24. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Group's capital management objective is to enhance shareholder value. The capital structure is reviewed with the end view of achieving a competitive cost of capital and are to ensure the Group's ability to continue as a going concern in order to provide adequate returns in the future to its stockholders and benefits for other stakeholders.

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

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

	<u>2021</u>	<u>2020</u>
Liabilities	<b>P 1,449,814,337</b>	P 2,394,182,089
Equity	<b><u>6,474,643,479</u></b>	<u>6,376,305,846</u>
Debt-to-equity ratio	<b><u>0.22 : 1.00</u></b>	<u>0.38 : 1.00</u>



## 25. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

### 25.1 *Carrying Amounts and Fair Values of Financial Assets and Financial Liabilities*

The carrying amounts and fair values of the categories of financial assets and financial liabilities presented in the statements of financial position are as follows:

	Notes	2021		2020	
		Carrying Values	Fair Values	Carrying Values	Fair Values
<b>Financial assets</b>					
Cash	4	P 250,220,189	P 250,220,189	P 238,420,167	P 238,420,167
Trade and other receivables – net (excluding advances to employees)	5, 19.2	456,318,578	456,318,578	723,865,836	723,865,836
Refundable deposits	8, 19.3				
	19.5	<u>1,318,209,230</u>	<u>1,318,209,230</u>	<u>1,371,771,235</u>	<u>1,371,771,235</u>
		<u>P2,024,747,997</u>	<u>P2,024,747,997</u>	<u>P 2,334,057,238</u>	<u>P 2,334,057,238</u>
<b>Financial liabilities</b>					
Loans payable	14	P 1,211,079,144	P 1,211,079,144	P 2,173,181,712	P 2,173,181,712
Trade and other payables	13	219,751,194	219,751,194	174,567,717	174,567,717
Security deposit		5,212,253	5,212,253	7,690,253	7,690,253
Lease liabilities	10	-	-	26,033,716	26,033,716
		<u>P1,436,042,591</u>	<u>P1,436,042,591</u>	<u>P 2,381,473,398</u>	<u>P 2,381,473,398</u>

See Note 2.6 for description of the accounting policies for each category of financial instrument including the determination of fair values. A description of the Group's risk management objectives and policies for financial instruments is provided in Note 23.

For financial instruments with maturity of more than one year, management consider their carrying values to be equal their fair values as management assesses that the effect of discounting on these instruments is not material.

The Group has no financial instruments carried at fair value. For the Group's financial assets and financial liabilities as of December 31, 2021 and 2020 that are carried at amortized cost, management determined that the carrying amounts approximate or equal their fair values.

### 25.2 *Offsetting of Financial Assets and Financial Liabilities*

The Group has not set off financial instruments in 2021 and 2020 and does not have relevant offsetting arrangements as of the end of the reporting periods. Currently, financial assets and financial liabilities are settled on a gross basis; however, if applicable, each party to the financial instrument will have the option to settle all such amounts on a net basis in the event of default of the other party through approval by both parties.

## 26. FAIR VALUE MEASUREMENT AND DISCLOSURES

### 26.1 *Fair Value Hierarchy*

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and liabilities and non-financial asset which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. Discussed in the succeeding page are the levels of fair value hierarchy.

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

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

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

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

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

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

The tables that follow summarizes the fair value hierarchy of the Group's financial assets and financial liabilities which are not measured at fair value in the 2021 and 2020 consolidated statements of financial position but for which fair value is disclosed (see Note 26.1).

		2021			
		Level 1	Level 2	Level 3	Total
<b><i>Financial assets:</i></b>					
Cash	P	250,220,189	-	-	P 250,220,189
Trade and other receivables – net (excluding advances to employees)		-	-	456,318,578	456,318,578
Refundable deposits		-	-	1,318,209,230	1,318,209,230
		<b><u>P 250,220,189</u></b>	<b><u>P -</u></b>	<b><u>P1,774,527,808</u></b>	<b><u>P2,024,747,997</u></b>
<b><i>Financial liabilities:</i></b>					
Loans payables	P	-	-	P1,211,079,144	P 1,211,079,144
Trade and other payables		-	-	219,751,194	219,751,194
Security deposit		-	-	5,212,253	5,212,253
		<b><u>P -</u></b>	<b><u>P -</u></b>	<b><u>P1,436,042,591</u></b>	<b><u>P 1,436,042,591</u></b>

	2020			
	Level 1	Level 2	Level 3	Total
<i>Financial assets:</i>				
Cash	P 238,420,167	P -	P -	P 238,420,167
Trade and other receivables – net (excluding advances to employees)	-	-	723,865,836	723,865,836
Refundable deposits	<u>-</u>	<u>-</u>	<u>1,371,771,235</u>	<u>1,371,771,235</u>
	<u>P 238,420,167</u>	<u>P -</u>	<u>P2,095,637,071</u>	<u>P 2,334,057,238</u>
<i>Financial liabilities:</i>				
Loans payables	P -	P -	P2,173,181,712	P 2,173,181,712
Trade and other payables	-	-	174,567,717	174,567,717
Lease liabilities	-	-	26,033,716	26,033,716
Security deposit	<u>-</u>	<u>-</u>	<u>7,690,253</u>	<u>7,690,253</u>
	<u>P -</u>	<u>P -</u>	<u>P2,381,473,398</u>	<u>P 2,381,473,398</u>

For financial assets and financial liabilities with fair values included in Level 1, management considers that the carrying amounts of those short-term financial instruments approximate their fair values.

### 26.3 Fair Value Measurement for Non-financial Assets

As determined by independent and SEC-accredited property appraisers, the total fair market values of these investment properties as of October 5, 2021, which are primarily determined with reference to current and most recent prices for similar properties within the same location and condition, amounted to P6.5 billion. Management determined that the appraisal made is a reasonable estimate for both 2021 and 2020; thus, these investment properties continue to hold the same fair market value as of December 31, 2021 and 2020 (see Note 11). The fair market values of investment properties are classified under Level 2.

## 27. SEGMENT REPORTING

### 27.1 Business Segments

The Group's operating businesses are organized and managed separately according to the nature of products and services provided. In identifying its reportable operating segments, management generally follows the Group's two main revenue sources, which represent the products and services provided by the Group, namely Sale of Goods and Consultancy Income.

## 27.2 Analysis of Segment Information

The table that follow on the next page presents revenue and profit information regarding business segments of the Group for the years ended December 31, 2021, 2020, and 2019.

		Sale of Goods		Consultancy Income		Total
<b><u>2021</u></b>						
Revenues	P	817,548,037	P	1,339,286	P	818,887,323
Cost		<u>531,941,367</u>		<u>1,087,827</u>		<u>533,029,194</u>
		<u>285,606,670</u>		<u>251,459</u>		<u>285,858,129</u>
Other operating expenses:						
Salaries and wages		45,275,532		-		45,275,532
Rental expense		18,602,679		-		18,602,679
Outside services		10,255,183		-		10,255,183
Transportation and travel		5,729,245		-		5,729,245
Insurance		5,576,981		-		5,576,981
Advertising and promotions		<u>939,298</u>		<u>-</u>		<u>939,298</u>
		<u>86,378,918</u>		<u>-</u>		<u>86,378,918</u>
<b>Segment profit before depreciation and amortization</b>	<b>P</b>	<b><u>199,199,650</u></b>	<b>P</b>	<b><u>251,459</u></b>	<b>P</b>	<b><u>199,451,109</u></b>
<b><u>2020</u></b>						
Revenues	P	909,307,222	P	44,642,857	P	953,950,079
Cost		<u>634,243,432</u>		<u>600,000</u>		<u>634,843,432</u>
		<u>275,063,790</u>		<u>44,042,857</u>		<u>319,106,647</u>
Other operating expenses:						
Salaries and wages		41,677,211		-		41,677,211
Rental expense		18,602,679		-		18,602,679
Transportation and travel		6,468,756		-		6,468,756
Outside services		4,936,648		-		4,936,648
Insurance		4,772,490		-		4,772,490
Advertising and promotions		<u>3,364,103</u>		<u>-</u>		<u>3,364,103</u>
		<u>79,821,887</u>		<u>-</u>		<u>79,821,887</u>
<b>Segment profit before depreciation and amortization</b>	<b>P</b>	<b><u>195,241,903</u></b>	<b>P</b>	<b><u>44,042,857</u></b>	<b>P</b>	<b><u>239,284,760</u></b>
<b><u>2019</u></b>						
Revenues	P	1,199,851,267	P	61,160,714	P	1,261,011,981
Cost		<u>885,196,138</u>		<u>2,400,000</u>		<u>887,596,138</u>
		<u>314,655,129</u>		<u>58,760,714</u>		<u>373,415,843</u>
Other operating expenses:						
Salaries and wages		35,115,243		-		35,115,243
Transportation and travel		12,876,993		-		12,876,993
Outside services		9,038,058		-		9,038,058
Insurance		7,126,973		-		7,126,973
Rental expense		2,612,250		-		2,612,250
Advertising and promotions		<u>1,640,190</u>		<u>-</u>		<u>1,640,190</u>
		<u>68,409,707</u>		<u>-</u>		<u>68,409,707</u>
<b>Segment profit before depreciation and amortization</b>	<b>P</b>	<b><u>246,245,422</u></b>	<b>P</b>	<b><u>58,760,714</u></b>	<b>P</b>	<b><u>305,006,136</u></b>

The following is the Group's reconciliation of the components of reportable segments to the consolidated statements of profit or loss:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Revenues –			
Total revenue of reportable segments	<b><u>P 818,887,323</u></b>	<b><u>P 953,950,079</u></b>	<b><u>P 1,261,011,981</u></b>
Costs and expenses:			
Total costs and expenses of reportable segments	<b>619,408,122</b>	714,665,319	956,005,845
Other costs and expenses from non-reportable segments	<b>44,106,131</b>	59,642,539	117,146,496
Depreciation and amortization	<b><u>31,110,997</u></b>	<b><u>30,835,694</u></b>	<b><u>46,698,120</u></b>
	<b><u>694,625,250</u></b>	<b><u>805,143,552</u></b>	<b><u>1,119,850,461</u></b>
Other operating income	<b><u>30,526,183</u></b>	<b><u>39,086,006</u></b>	<b><u>37,481,898</u></b>
Gain on sale and deconsolidation of subsidiary	<b><u>311,965,240</u></b>	<u>-</u>	<u>-</u>
Finance costs	<b><u>( 133,136,158)</u></b>	<b><u>( 123,861,556)</u></b>	<b><u>( 135,006,587)</u></b>
Equity in net income (losses) of associates	<b><u>( 91,860,729)</u></b>	<b><u>674,805,412</u></b>	<b><u>( 19,792,302)</u></b>
Finance income	<b><u>8,832,473</u></b>	<b><u>6,752,622</u></b>	<b><u>21,391,563</u></b>
Gain on disposal of investment properties	<u>-</u>	<u>-</u>	<b><u>2,493,634</u></b>
Profit before tax	<b><u>P 250,589,083</u></b>	<b><u>P 745,589,011</u></b>	<b><u>P 47,729,726</u></b>

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

The disaggregated profile of sale of goods for the years ended December 31 is illustrated below.

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Feeds, veterinary and agricultural inputs	<b>32%</b>	35%	37%
Food ingredients	<b>31%</b>	28%	23%
Industrial chemicals	<b>16%</b>	25%	31%
Home and personal care	<b>13%</b>	7%	6%
Others	<b>8%</b>	5%	3%

Revenues from sale of goods are recognized at a point in time, while the consultancy income is recognized over time (see Note 2.14).

Presented below is a reconciliation of the Group's segment information to the key financial information presented in its consolidated financial statements.

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Total segment assets	<b>P 7,924,457,816</b>	P 8,219,310,113	P 7,880,388,538
Cash	-	-	382,558
Prepayments and other current assets	-	-	1,188,515
Property and equipment	-	-	78,576,810
Investment properties	-	-	309,181,510
Deferred tax assets	-	-	13,764,773
Other noncurrent assets	-	-	164,410,000
Assets held for sale	<u>-</u>	<u>551,177,822</u>	<u>-</u>
Total assets as reported in the consolidated statements of financial position	<b><u>P 7,924,457,816</u></b>	<b><u>P 8,770,487,935</u></b>	<b><u>P 8,447,892,704</u></b>
Total segment liabilities	<b>P 1,449,814,337</b>	P 2,393,651,643	P 2,768,647,880
Trade and other payables	-	-	1,499,931
Liability attributable to assets held for sale	<u>-</u>	<u>530,446</u>	<u>-</u>
Total liabilities as reported in the consolidated statements of financial position	<b><u>P 1,449,814,337</u></b>	<b><u>P 2,394,182,089</u></b>	<b><u>P 2,770,147,811</u></b>

**Report of Independent Auditors  
to Accompany Supplementary  
Information Required by the  
Securities and Exchange Commission  
Filed Separately from the  
Basic Consolidated Financial Statements**

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**The Board of Directors**  
**SBS Philippines Corporation and Subsidiaries**  
**(A Subsidiary of Anesy Holdings Corporation)**  
No. 10 Resthaven Street  
San Francisco Del Monte, Quezon City

We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of SBS Philippines Corporation and subsidiaries for the year ended December 31, 2021, on which we have rendered our report dated March 29, 2022. Our audit was made for the purpose of forming an opinion on the consolidated basic financial statements taken as a whole. The applicable supplementary information (see List of Supplementary Information) is presented for purposes of additional analysis in compliance with the requirements of the Revised Securities Regulation Code Rule 68 and is not a required part of the consolidated basic financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in the audit of the consolidated basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated basic financial statements taken as a whole.

**PUNONGBAYAN & ARAULLO**



**By: Anthony L. Ng**  
Partner

CPA Reg. No. 0109764

TIN 230-169-270

PTR No. 8852341, January 3, 2022, Makati City

SEC Group A Accreditation

Partner - No. 109764-SEC (until Dec. 31, 2023)

Firm - No. 0002 (until Dec. 31, 2024)

BIR AN 08-002511-038-2019 (until Sept. 4, 2022)

Firm's BOA/PRC Cert. of Reg. No. 0002 (until Aug. 27, 2024)

March 29, 2022

**SBS PHILIPPINES CORPORATION AND SUBSIDIARY**  
*(A Subsidiary of Anesy Holdings Corporation)*  
**LIST OF SEC SUPPLEMENTARY SCHEDULES**  
**COVERED BY INDEPENDENT AUDITORS' REPORT**  
**December 31, 2021**

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**SBS PHILIPPINES CORPORATION AND SUBSIDIARY**  
*(A Subsidiary of Anesy Holdings Corporation)*  
SEC Released Amended SRC Rule 68

**Schedule A - Financial Assets (Financial Assets at Amortized Cost)**  
**December 31, 2021**  
**(Amounts in Philippine Pesos)**

Description	Number of shares or Principal Amount of Bonds and Notes	Amount Shown in the Statements of Financial Position	Income received and accrued
Cash	-	P 250,220,189	P 237,410
Trade and other receivables	-	456,318,578	-
Refundable deposits	-	<u>1,318,209,230</u>	<u>-</u>
		<b><u>P 2,024,747,997</u></b>	<b><u>P 237,410</u></b>

**SBS PHILIPPINES CORPORATION AND SUBSIDIARY**  
*(A Subsidiary of Anesy Holdings Corporation)*  
SEC Released Amended SRC Rule 68

**Schedule A - Financial Assets (Financial Assets at Fair Value Through Profit or Loss)**  
**December 31, 2021**  
*(Amounts in Philippine Pesos)*

Name of issuing entity and association of each issue	Number of shares	Amount shown in the balance sheet	Valued based on market quotation at balance sheet date	Income received and accrued
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**NOT APPLICABLE**

**SBS PHILIPPINES CORPORATION AND SUBSIDIARY**

*(A Subsidiary of Anesy Holdings Corporation)*

SEC Released Amended SRC Rule 68

**Schedule A - Financial Assets (Fair Value Through Other Comprehensive Income)**

**December 31, 2021**

*(Amounts in Philippine Pesos)*

Name of issuing entity and association of each issue	Number of shares	Amount shown in the balance sheet	Valued based on market quotation at balance sheet date	Income received and accrued
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**NOT APPLICABLE**

**SBS PHILIPPINES CORPORATION AND SUBSIDIARY**  
*(A Subsidiary of Anesy Holdings Corporation)*  
SEC Released Amended SRC Rule 68

**Schedule B - Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)**  
**December 31, 2021**  
*(Amounts in Philippine Pesos)*

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

**NOTHING TO REPORT**

**SBS PHILIPPINES CORPORATION AND SUBSIDIARY**  
*(A Subsidiary of Anesy Holdings Corporation)*  
SEC Released Amended SRC Rule 68

Schedule C - Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements  
December 31, 2021  
*(Amounts in Philippine Pesos)*

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

**SBS PHILIPPINES CORPORATION AND SUBSIDIARY**  
*(A Subsidiary of Anesys Holdings Corporation)*  
SEC Released Amended SRC Rule 68

**Schedule D - Long Term Debt**  
**December 31, 2021**  
*(Amounts in Philippine Pesos)*

Title of Issue and type of obligation	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption "long-term debt" in related balance sheet
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**Term Loan**

P	332,000,000	P	-
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**SBS PHILIPPINES CORPORATION AND SUBSIDIARY**  
*(A Subsidiary of Anesys Holdings Corporation)*  
SEC Released Amended SRC Rule 68

**Schedule E - Indebtedness to Related Parties**  
December 31, 2021  
*(Amounts in Philippine Pesos)*

Name and designation of debtor	Balance at beginning of period	Balance at end of period
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**NOTHING TO REPORT**

**SBS PHILIPPINES CORPORATION AND SUBSIDIARY**  
*(A Subsidiary of Anesys Holdings Corporation)*  
SEC Released Amended SRC Rule 68

**Schedule F - Guarantees of Securities of Other Issuers**  
**December 31, 2021**  
*(Amounts in Philippine Pesos)*

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



**SBS PHILIPPINES CORPORATION AND SUBSIDIARY**  
*(A Subsidiary of Anesy Holdings Corporation)*  
SEC Released Amended SRC Rule 68

**Schedule G - Capital Stock**  
**December 31, 2021**  
*(Amounts in Philippine Pesos)*

Title of Issue	Number of shares authorized	Number of shares issued and outstanding as shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors, officers and employees	Others
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Common Shares - P1 par value	1,550,000,000	1,549,999,999	-	1,111,137,572	69,476,221	369,386,206
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**SBS PHILIPPINES CORPORATION**  
*(A Subsidiary of Anesy Holdings Corporation)*  
No. 10 Resthaven Street  
San Francisco Del Monte, Quezon City

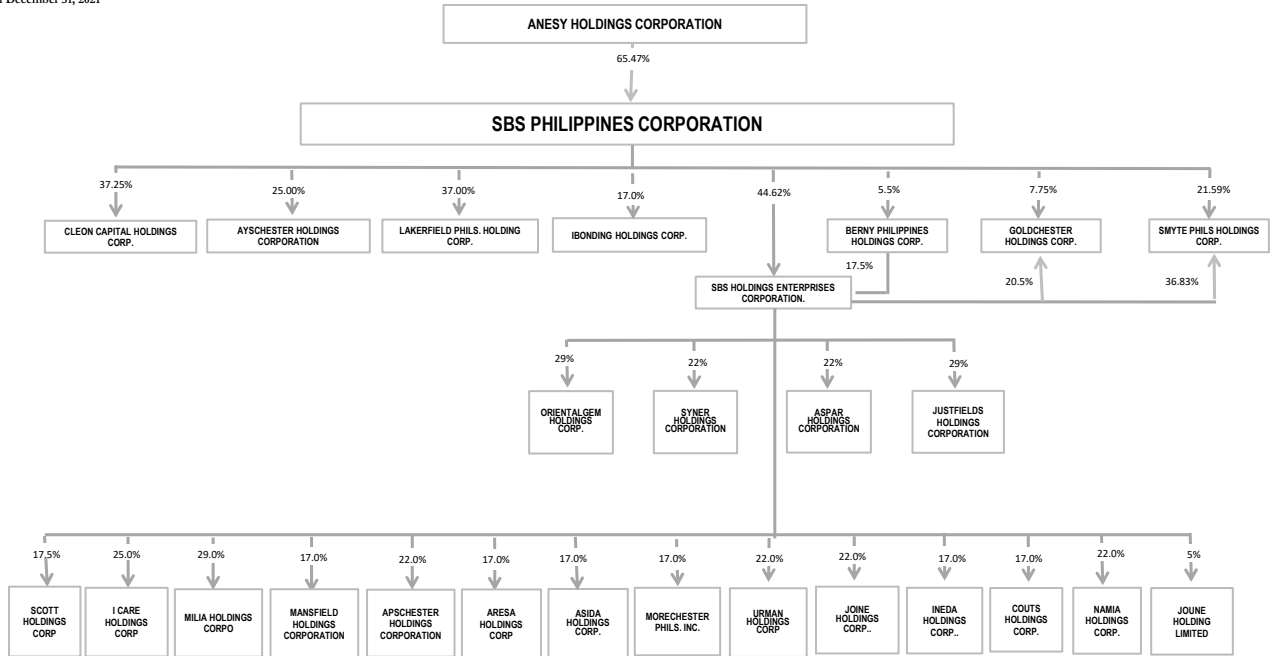
**Reconciliation of Retained Earnings Available for Dividend Declaration**  
**As of and for the Year Ended December 31, 2021**  
*(Amounts in Philippine Pesos)*

<b>Unappropriated Retained Earnings at the Beginning of the Year</b>		P 1,668,511,798
<b>Less: Prior Year's Outstanding Reconciling Items</b>		
Cumulative equity share in net income of associates	( 686,942,087 )	
Cumulative deferred tax income recognized in profit or loss	( <u>654,372</u> )	( <u>687,596,459</u> )
<b>Unappropriated Retained Earnings Available for Dividend Declaration at Beginning of the Year</b>		<u>980,915,339</u>
<b>Net Profit Realized During the Year</b>		
Net profit per audited financial statements	167,605,925	
<b>Non-actual/unrealized income -</b>		
Equity share in net losses of associates	46,411,376	
Deferred tax income from deferred tax asset recognized during the year	( <u>55,426</u> )	<u>213,961,875</u>
<b>Cash dividends declared during the year</b>		( <u>34,100,000</u> )
<b>Unappropriated Retained Earnings Available for Dividend Declaration at End of Year</b>		<b><u>P 1,160,777,214</u></b>

## SBS PHILIPPINES CORPORATION AND SUBSIDIARIES

SHOWING THE RELATIONSHIPS BETWEEN AND AMONG COMPANIES IN THE GROUP

Ultimate Parent Company and Subsidiary  
as of December 31, 2021



## **Report of Independent Auditors on Components of Financial Soundness Indicators**

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**Punongbayan & Araullo**20<sup>th</sup> Floor, Tower 1

The Enterprise Center

6766 Ayala Avenue

1200 Makati City

Philippines

T +63 2 8988 2288

**The Board of Directors**  
**SBS Philippines Corporation and Subsidiaries**  
**(A Subsidiary of Anesy Holdings Corporation)**  
No. 10 Resthaven Street  
San Francisco Del Monte, Quezon City

We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of SBS Philippines Corporation and subsidiaries (the Group) for the years ended December 31, 2021 and 2020, on which we have rendered our report dated March 29, 2022. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Group's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purposes 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 basic 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 of December 31, 2021 and 2020 and for each of the three years in the period ended December 31, 2021 and no material exceptions were noted.

### **PUNONGBAYAN & ARAULLO**



**By: Anthony L. Ng**  
Partner

CPA Reg. No. 0109764

TIN 230-169-270

PTR No. 8852341, January 3, 2022, Makati City

SEC Group A Accreditation

Partner - No. 109764-SEC (until Dec. 31, 2023)

Firm - No. 0002 (until Dec. 31, 2024)

BIR AN 08-002511-038-2019 (until Sept. 4, 2022)

Firm's BOA/PRC Cert. of Reg. No. 0002 (until Aug. 27, 2024)

March 29, 2022

**SBS PHILIPPINES CORPORATION AND SUBSIDIARIES**  
**(A Subsidiary of Anesys Holdings Corporation)**  
**Supplemental Schedule of Financial Soundness Indicators**  
**December 31, 2021 and 2020**

Ratio	Formula	2021	Formula	2020
Current ratio	Total Current Assets divided by Total Current Liabilities  Total Current Assets 1,616,580,187 Divide by: Total Current Liabilities 1,436,006,059 Current ratio 1.13	1.13	Total Current Assets divided by Total Current Liabilities  Total Current Assets 2,516,019,151 Divide by: Total Current Liabilities 2,043,901,411 Current ratio 1.23	1.23
Acid test ratio	Quick assets (Total Current Assets less Inventories and Other Current Assets) divided by Total Current Liabilities  Total Current Assets 1,616,580,187 Less: Inventories (776,372,902) Other Current Assets (133,668,518) Quick Assets 706,538,767 Divide by: Total Current Liabilities 1,436,006,059 Acid test ratio 0.49	0.49	Quick assets (Total Current Assets less Inventories and Other Current Assets) divided by Total Current Liabilities  Total Current Assets 2,516,019,151 Less: Inventories (894,472,936) Other Current Assets (659,251,620) Quick Assets 962,294,595 Divide by: Total Current Liabilities 2,043,901,411 Acid test ratio 0.47	0.47
Solvency ratio	Total Liabilities divided by Total Assets  Total Liabilities 1,449,814,337 Divide by: Total Assets 7,924,457,816 Solvency ratio 0.18	0.18	Total Liabilities divided by Total Assets  Total Liabilities 2,394,182,089 Divide by: Total Assets 8,770,487,935 Solvency ratio 0.27	0.27
Debt-to-equity ratio	Total Liabilities divided by Total Equity  Total Liabilities 1,449,814,337 Divide by: Total Equity 6,474,643,479 Debt-to-equity ratio 0.22	0.22	Total Liabilities divided by Total Equity  Total Liabilities 2,394,182,089 Divide by: Total Equity 6,376,305,846 Debt-to-equity ratio 0.38	0.38
Assets-to-equity ratio	Total Assets divided by Total Equity  Total Assets 7,924,457,816 Divide by: Total Equity 6,474,643,479 Assets-to-equity ratio 1.22	1.22	Total Assets divided by Total Equity  Total Assets 8,770,487,935 Divide by: Total Equity 6,376,305,846 Assets-to-equity ratio 1.38	1.38
Interest rate coverage ratio	Earnings before interest and taxes (EBIT) divided by Interest expense  EBIT 331,026,403 Divide by: Interest expense 89,574,153 Interest rate coverage ratio 3.70	3.70	Earnings before interest and taxes (EBIT) divided by Interest expense  EBIT 854,093,709 Divide by: Interest expense 123,861,556 Interest rate coverage ratio 6.90	6.90
Return on equity	Net Profit divided by Total Equity  Net Profit 180,434,783 Divide by: Total Equity 6,474,643,479 Return on equity 0.03	0.03	Net Profit divided by Total Equity  Net Profit 700,171,966 Divide by: Total Equity 6,376,305,846 Return on equity 0.11	0.11
Return on assets	Net Profit divided by Total Assets  Net Profit 180,434,783 Divide by: Total Assets 7,924,457,816 Return on assets 0.02	0.02	Net Profit divided by Total Assets  Net Profit 700,171,966 Divide by: Total Assets 8,770,487,935 Return on assets 0.08	0.08
Net profit margin	Net Profit divided by Total Revenue  Net Profit 180,434,783 Divide by: Revenue 818,887,323 Net profit margin 0.22	0.22	Net Profit divided by Total Revenue  Net Profit 700,171,966 Divide by: Revenue 953,950,079 Net profit margin 0.73	0.73