Punongbayan & Araullo

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Report of Independent Auditors

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

Report on the Financial Statements

We have audited the accompanying financial statements of SBS Philippines Corporation, which comprise the statements of financial position as at December 31, 2014 and 2013, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Opinion on the 2013 Financial Statements

We were appointed as external auditors of the Company in 2013; hence, we were not able to observe the year end physical count of the Company's inventories as at December 31, 2012. Since the balance of inventories as at December 31, 2012 enters into the determination of cost of goods sold and, consequently, the Company's tax expense and net profit in 2013, we were unable to determine, by means of other auditing procedures, whether adjustments might have been necessary in respect of the reported net profit in the 2013 statement of comprehensive income and the cash flows from operating activities in the 2013 statement of cash flows. Hence, our opinion on the 2013 statement of comprehensive income and 2013 statement of cash flows is qualified as to this matter.

In 2014, because the matter described in the preceding paragraph no longer affects the Company's 2014 statement of comprehensive income and 2014 statement of cash flows, our opinion on those statements is no longer qualified with respect to the same matter.

Opinion

In our opinion, except for the matters described in the Basis for Qualified Opinion on the 2013 Financial Statements paragraph, the financial statements present fairly, in all material respects, the financial position of SBS Philippines Corporation as at December 31, 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

Other Matter

The financial statements of SBS Philippines Corporation as of and for the year ended December 31, 2012 was audited by other auditors whose report, dated April 4, 2013, expressed an unqualified opinion on those statements prior to restatement. We were not engaged to audit, review, or apply any procedures to the 2012 financial statements of SBS Philippines Corporation and, accordingly, we do not express an opinion or any other form of assurance on the 2012 financial statements.

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2014 required by the Bureau of Internal Revenue as disclosed in Note 27 to the financial statements is presented for purposes of additional analysis and is not a required part of the 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 basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PUNONGBAYAN & ARAULLO

By: Renan A. Piamonte
Partner

CPA Reg. No. 0107805
TIN 221-843-037
PTR No. 4748316, January 5, 2015, Makati City
SEC Group A Accreditation
Partner - No. 1363-A (until Nov. 11, 2016)
Firm - No. 0002-FR-3 (until Mar. 31, 2015)
BIR AN 08-002511-37-2013 (until Oct. 7, 2016)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2015)

March 5, 2015

SBS PHILIPPINES CORPORATION
(Formerly Sytengco Philippines Corporation)
(A Subsidiary of Anesy Holdings Corporation)
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2014 AND 2013
(Amounts in Philippine Pesos)

Approved by:

Name:
Date:

	Notes	2014	2013
A S S E T S			
CURRENT ASSETS			
Cash in banks	2	**P 338,132,143**	P 48,102,505
Trade and other receivables	4	**100,204,779**	84,891,879
Inventories – net	5	**1,557,928,385**	1,482,859,241
Advances to related parties	18	**-**	740,550,680
Financial assets at fair value through profit or loss	6	**29,259,715**	51,916,950
Prepayments and other current assets	9	**154,008,669**	151,963,666
Total Current Assets		**2,179,533,691**	2,560,284,921
NON-CURRENT ASSETS			
Property and equipment – net	10	**22,212,249**	23,956,421
Investment properties	11	**955,287,542**	949,016,529
Deferred tax assets – net	19	**1,847,914**	3,721,465
Investment in an associate	8	**18,388,692**	19,249,900
Other non-current financial assets	7	**250,124,488**	-
Total Non-current Assets		**1,247,860,885**	995,944,315
TOTAL ASSETS		**P 3,427,394,576**	P 3,556,229,236
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Loans payable	13	**P 261,500,000**	P 808,000,000
Trade and other payables	12	**422,823,999**	184,687,149
Advances from related parties	18	**699,192,601**	443,635,421
Dividends payable	20	**265,494,338**	-
Income tax payable		**34,718,239**	19,200,765
Total Current Liabilities		**1,683,729,177**	1,455,523,335
NON-CURRENT LIABILITIES			
Loans payable	13	**1,163,500,000**	1,595,000,000
Post-employment defined benefit obligation	17	**2,190,431**	1,188,861
Total Non-current Liabilities		**1,165,690,431**	1,596,188,861
Total Liabilities		**2,849,419,608**	3,051,712,196
EQUITY			
Capital stock	20	**262,000,000**	22,000,000
Additional paid-in capital	2	**200,000,000**	200,000,000
Revaluation reserves	20	**(1,400,328)**	(180,407)
Retained earnings	20	**117,375,296**	282,697,447
Total Equity		**577,974,968**	504,517,040
TOTAL LIABILITIES AND EQUITY		**P 3,427,394,576**	P 3,556,229,236

See Notes to Financial Statements.

SBS PHILIPPINES CORPORATION
(Formerly Sytengco Philippines Corporation)
(A Subsidiary of Anesy Holdings Corporation)
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(With Comparative Figures for the Year Ended December 31, 2012)
(Amounts in Philippine Pesos)

Approved by:

Name:
Date:

	Notes	2014	2013	2012
SALE OF GOODS	18	**P 933,080,958**	P 785,947,148	P 993,927,489
COST OF GOODS SOLD	14	**668,512,426**	580,231,614	790,727,290
GROSS PROFIT		**264,568,532**	205,715,534	203,200,199
OTHER OPERATING INCOME (EXPENSES)				
Other operating expenses	14	**(100,389,507)**	(98,757,766)	(61,521,387)
Finance costs – net	16	**(90,620,087)**	(96,281,955)	(95,259,122)
Other operating income	15	**73,179,541**	58,851,389	10,958,429
		(117,830,053)	(136,188,332)	(145,822,080)
OPERATING PROFIT		**146,738,479**	69,527,202	57,378,119
EQUITY IN NET LOSSES OF AN ASSOCIATE	8	**861,208**	-	-
PROFIT BEFORE TAX		**145,877,271**	69,527,202	57,378,119
TAX EXPENSE	19	**45,705,084**	9,197,322	17,777,220
NET PROFIT		**100,172,187**	60,329,880	39,600,899
OTHER COMPREHENSIVE LOSS				
Item that will not be reclassified subsequently to profit or loss				
Remeasurements of post-employment defined benefit plan	17	**780,504**	93,682	164,043
Tax income	19	**(234,151)**	(28,105)	(49,213)
		546,353	65,577	114,830
Item that will be reclassified subsequently to profit or loss				
Fair value loss on available-for-sale financial assets	7	**673,568**	-	-
Other Comprehensive Loss		**1,219,921**	65,577	114,830
TOTAL COMPREHENSIVE INCOME		**P 98,952,266**	P 60,264,303	P 39,486,069
EARNINGS PER SHARE - Basic and Diluted	20	**P 1.80**	P 2.74	P 1.80

See Notes to Financial Statements.

SBS PHILIPPINES CORPORATION
(Formerly Sytengco Philippines Corporation)
(A Subsidiary of Anesy Holdings Corporation)
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(With Comparative Figures for the Year Ended December 31, 2012)
(Amounts in Philippine Pesos)

Approved by:

Name:
Date:

	Capital Stock (see Note 20)	Additional Paid-in Capital	Retained Earnings (see Note 20) Appropriated	Retained Earnings (see Note 20) Unappropriated	Revaluation Reserves (see Notes 7 and 17)	Total Equity
Balance at January 1, 2014	P 22,000,000	P 200,000,000	P 275,000,000	P 7,697,447	(P 180,407)	P 504,517,040
Issuance of shares during the year	240,000,000	-	-	-	-	240,000,000
Reversal of appropriation during the year	-	-	(275,000,000)	275,000,000	-	-
Cash dividends	-	-	-	(265,494,338)	-	(265,494,338)
Total comprehensive income for the year	-	-	-	100,172,187	(1,219,921)	98,952,266
Balance at December 31, 2014	**P 262,000,000**	**P 200,000,000**	**P -**	**P 117,375,296**	**(P 1,400,328)**	**P 577,974,968**
Balance at January 1, 2013	P 22,000,000	P 200,000,000	P -	P 222,367,567	(P 114,830)	P 444,252,737
Appropriation during the year	-	-	275,000,000	(275,000,000)	-	-
Total comprehensive income for the year	-	-	-	60,329,880	(65,577)	60,264,303
Balance at December 31, 2013	P 22,000,000	P 200,000,000	P 275,000,000	P 7,697,447	(P 180,407)	P 504,517,040
Balance at January 1, 2012	P 22,000,000	P 200,000,000	P -	P 182,766,668	P -	P 404,766,668
Total comprehensive income for the year	-	-	-	39,600,899	(114,830)	39,486,069
Balance at December 31, 2012	P 22,000,000	P 200,000,000	P -	P 222,367,567	(P 114,830)	P 444,252,737

See Notes to Financial Statements.

SBS PHILIPPINES CORPORATION
(Formerly Sytengco Philippines Corporation)
(A Subsidiary of Anesy Holdings Corporation)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(With Comparative Figures for the Year Ended December 31, 2012)
(Amounts in Philippine Pesos)

Approved by:

Name:
Date:

	Notes	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		**P 145,877,271**	P 69,527,202	P 57,378,119
Adjustments for:				
Interest expense	16	**95,086,591**	96,190,483	131,210,415
Depreciation and amortization	10	**6,746,374**	6,409,048	5,361,123
Gain on sale of financial assets at fair value through profit or loss (FVTPL)	6, 16	**(6,134,247)**	(9,139,704)	-
Share in net loss of associate	8	**861,208**	-	-
Fair value loss (gain) on financial assets at FVTPL	6, 16	**618,100**	11,317,255	(31,981,102)
Unrealized foreign currency losses (gains)	16	**143,103**	(2,829,766)	(3,970,191)
Operating profit before working capital changes		**243,198,400**	171,474,518	157,998,364
Decrease (increase) in trade and other receivables		**(15,312,900)**	(15,609,125)	8,610,215
Decrease (increase) in inventories		**(75,069,144)**	(36,855,319)	41,180,125
Decrease (increase) in advances to related parties		**326,274,850**	(440,476,767)	(198,800,410)
Increase in prepayments and other current assets		**(10,924,146)**	(23,402,408)	(72,486,620)
Increase (decrease) in trade and other payables		**238,136,850**	(74,588,964)	(533,426,219)
Increase in post-employment defined benefit obligation		**221,066**	210,197	187,299
Cash generated from (used in) operations		**706,524,976**	(419,247,868)	(596,737,246)
Cash paid for income taxes		**(19,200,765)**	(14,121,707)	(3,817,420)
Net Cash From (Used) in Operating Activities		**687,324,211**	(433,369,575)	(600,554,666)
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of held-to-maturity investment	7	**(250,000,000)**	-	-
Proceeds from sale of financial assets at FVTPL	6	**34,132,707**	59,434,627	43,372,281
Acquisition of investment properties	11	**(6,271,013)**	(5,759,873)	(236,470,236)
Purchases of financial assets at FVTPL	6	**(5,959,325)**	(49,346,328)	(75,573,979)
Acquisition of property and equipment	10	**(5,002,202)**	(4,978,207)	(7,482,143)
Acquisition of available-for-sale (AFS) financial assets	7	**(894,985)**	-	-
Proceeds from sale of AFS financial assets	7	**96,929**	-	-
Acquisition of investment in an associate	8	-	-	(19,249,900)
Net Cash Used in Investing Activities		**(233,897,889)**	(649,781)	(295,403,977)
CASH FLOWS FROM FINANCING ACTIVITIES				
Settlement of loans	13	**(1,528,000,000)**	(1,963,250,000)	(792,000,000)
Advances obtained from related parties	18	**770,330,926**	199,619,526	200,241,002
Proceeds from availment of loans	13	**550,000,000**	2,316,750,000	1,620,500,000
Proceeds from issuance of shares of stock	20	**240,000,000**	-	-
Settlement of advances to related parties	18	**(100,497,916)**	-	-
Interest paid		**(95,086,591)**	(94,885,957)	(131,210,415)
Net Cash From (Used in) Financing Activities		**(163,253,581)**	458,233,569	897,530,587
EFFECTS OF EXCHANGE RATE CHANGES ON CASH IN BANKS		**(143,103)**	1,901,548	(807,361)
NET INCREASE IN CASH IN BANKS		**290,029,638**	26,115,761	764,583
CASH IN BANKS AT BEGINNING OF YEAR		**48,102,505**	21,986,744	21,222,161
CASH IN BANKS AT END OF YEAR		**P 338,132,143**	P 48,102,505	P 21,986,744

Supplemental Information on Non-cash Financing Activities:

1) In 2014, the Company entered into an assignment of receivables and offsetting arrangement with certain related parties wherein the balances of the Company's advances to its affiliates were assigned in payment and set-off against the equivalent amount of the Company's advances from its shareholder and Chairman of the Board (see Note 18).

2) In 2014, the Company's Board of Directors approved the decaration of cash dividends amounting to P265.5 million in favor of stockholders of record as of December 31, 2014 to be paid and distributed in proportion to their shareholdings in the Company in March 2015. This amount remains unpaid as of December 31, 2014 (see Note 20).

See Notes to Financial Statements.

Approved by:
Name:
Date:

SBS PHILIPPINES CORPORATION
(Formerly Sytengco Philippines Corporation)
(A Subsidiary of Anesy Holdings Corporation)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(With Comparative Figures for the Year Ended December 31, 2012)
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

SBS Philippines Corporation (the Company) was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on July 17, 2001. The 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.

On October 15, 2014, the Board of Directors (BOD) and stockholders of the Company approved the following amendments to the Company's articles of incorporation and by-laws:

a) change in the Company's corporate name from Sytengco Philippines Corporation to SBS Philippines Corporation;

b) change in the Company's registered office, which is also its principal place of business, from Rm. 503 Regina Garden II, Reina Regente Street, Binondo, Manila to No. 10 Resthaven Street, San Francisco Del Monte, Quezon City; and,

c) change in the authorized capital stock from 220,000 shares at P100 par value to 1.0 billion shares at P1 par value.

The amendment was approved by the SEC on November 18, 2014. The amendment is in the process of approval by the Bureau of Internal Revenue (BIR) as of December 31, 2014.

Subsequently, on December 2, 2014, the BOD and stockholders of the Company approved to further amend the Company's articles of incorporation to increase the authorized capital stock to 1.6 billion shares at P1 par value (see Note 20.1). The foregoing amendment was approved by the SEC on December 18, 2014. Anesy Holdings Corporation (Anesy or the Parent Company), a company incorporated and domiciled in the Philippines, subscribed to new shares and acquired 94% controlling interest in the Company; hence, considered as the Company's parent on the date of its acquisition of the Company's shares.

Anesy is currently engaged in holding, owning and acquiring shares of stock, bonds and other investments in any and all types of business enterprise engaged in any productive or commercial activity. Its registered office, which is also its principal place of business, is located at No. 37 Judge Juan Luna St., San Francisco del Monte, Quezon City.

The financial statements of the Company as of and for the year ended December 31, 2014 (including the comparative financial statements as of December 31, 2013 and for the years ended December 31, 2013 and 2012) were authorized for issue by the Company's BOD on March 5, 2015.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

The financial statements of the Company 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 (BOA).

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

(b) Presentation of Financial Statements

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Company presents all items of income and expenses and other comprehensive income in a single statement of comprehensive income.

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

(c) Functional and Presentation Currency

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

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

Approved by:

Name:
Date:

2.2 Adoption of New and Amended PFRS

(a) Effective in 2014 that are Relevant to the Company

In 2014, the Company adopted for the first time the following amendments and interpretation to PFRS that are relevant to the Company and effective for financial statements for the annual periods beginning on or after January 1, 2014:

PAS 32 (Amendment)	:	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities
PAS 36 (Amendment)	:	Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets
PAS 39 (Amendment)	:	Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting
Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 21	:	Levies

Discussed below and in the succeeding page are the relevant information about these amended standards and interpretation.

(i) PAS 32 (Amendment), *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*. The amendment provides guidance to address inconsistencies in applying the criteria for offsetting financial assets and financial liabilities. It clarifies that an entity must currently have a right of set-off that is not contingent on a future event, and must be legally enforceable in the normal course of business; in the event of default; and, in the event of insolvency or bankruptcy of the entity and all of the counterparties. The amendment also clarifies that gross settlement mechanisms (such as through a clearing house) with features that both eliminate credit and liquidity risks and process receivables and payables in a single settlement process will satisfy the criterion for net settlement. The amendment has been applied retrospectively in accordance with its transitional provisions. In 2014, the Company entered into a master netting arrangement with its related parties, offsetting their financial assets with financial liabilities (see Note 24.2).

(ii) PAS 36 (Amendment), *Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets*. The amendment clarifies that disclosure of information about the recoverable amount of individual asset (including goodwill) or a cash-generating unit is required only when an impairment loss has been recognized or reversed during the reporting period. If the recoverable amount is determined based on the asset's or cash-generating unit's fair value less cost of disposal, additional disclosures on fair value measurement required under PFRS 13, *Fair Value Measurement*, such as but not limited to the fair value hierarchy, valuation technique used and key assumptions applied should be provided in the financial statements. This amendment did not result in additional disclosures in the financial statements since there is no impairment loss recognized on the Company's non-financial assets.

(iii) PAS 39 (Amendment), *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*. The amendment provides some relief from the requirements on hedge accounting by allowing entities to continue the use of hedge accounting when a derivative is novated to a clearing counterparty resulting in termination or expiration of the original hedging instrument as a consequence of laws and regulations, or the introduction thereof. As the Company neither enters into transactions involving derivative instruments nor does it applies hedge accounting, the amendment did not have any impact on the Company's financial statements.

(iv) Philippine Interpretation IFRIC 21, *Levies*. This interpretation clarifies that the obligating event as one of the criteria under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, for the recognition of a liability for levy imposed by a government is the activity described in the relevant legislation that triggers the payment of the levy. Accordingly, the liability is recognized in the financial statements progressively if the obligating event occurs over a period of time and if an obligation is triggered on reaching a minimum threshold, the liability is recognized when that minimum threshold is reached. This amendment had no impact on the Company's financial statements.

(b) Effective in 2014 that are not Relevant to the Company

Among the amendments to PFRS which are effective for the annual periods beginning or after January 1, 2014, the Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 27, *Separate Financial Statements*, in relation to the exception from consolidation for an investment entity of its investments in subsidiaries are not relevant to the Company.

(c) Effective Subsequent to 2014 but not Adopted Early

There are new PFRS, amendments and annual improvements to existing standards effective for annual periods subsequent to 2014 which are issued by the FRSC, subject to the approval of the BOA. Management will adopt the relevant pronouncements in the succeeding pages in accordance with their transitional provisions, and, unless otherwise stated, none of these are expected to have significant impact on the Company's financial statements.

(i) PAS 19 (Amendment), *Employee Benefits – Defined Benefit Plans – Employee Contributions* (effective from July 1, 2014). The amendment clarifies that if the amount of the contributions from employees or third parties is dependent on the number of years of service, an entity shall attribute the contributions to periods of service using the same attribution method (i.e., either using the plan's contribution formula or on a straight-line basis) for the gross benefit.

(ii) PAS 1 (Amendment), *Presentation of Financial Statements – Disclosure Initiative* (effective from January 1, 2016). The amendment encourages entities to apply professional judgment in presenting and disclosing information in the financial statements. Accordingly, it clarifies that materiality applies to the whole financial statements and an entity shall not reduce the understandability of the financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. Moreover, the amendment clarifies that an entity's share of other comprehensive income of associates and joint ventures accounted for using equity method should be presented based on whether or not such other comprehensive income item will subsequently be reclassified to profit or loss. It further clarifies that in determining the order of presenting the notes and disclosures, an entity shall consider the understandability and comparability of the financial statements.

(iii) PAS 16 (Amendment), *Property, Plant and Equipment* and PAS 38 (Amendment), *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization* (effective from January 1, 2016). The amendment in PAS 16 clarifies that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment. In addition, amendment to PAS 38 introduces a rebuttable presumption that an amortization method that is based on the revenue generated by an activity that includes the use of an intangible asset is not appropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of an intangible asset are highly correlated. The amendment also provides guidance that the expected future reductions in the selling price of an item that was produced using the asset could indicate an expectation of technological or commercial obsolescence of an asset, which may reflect a reduction of the future economic benefits embodied in the asset.

(iv) PAS 27 (Amendment), *Separate Financial Statements – Equity Method in Separate Financial Statements* (effective from January 1, 2016). This amendment introduces a third option which permits an entity to account for its investments in subsidiaries, joint ventures and associates under the equity method in its separate financial statements in addition to the current options of accounting those investments at cost or in accordance with PAS 39 or PFRS 9, *Financial Instruments*. As of the end of the reporting period, the Company has no plan to change the accounting policy for its investment in its associate.

(v) PAS 28 (Amendment), *Investments in Associates and Joint Ventures – Investment Entities – Applying the Consolidation Exception* (effective from January 1, 2016). This amendment addresses the concerns that have arisen in the context of applying the consolidation exception for investment entities. This amendment permits a non-investment entity investor, when applying the equity method of accounting for an associate or joint venture that is an investment entity, to retain the fair value measurement applied by that investment entity associate or joint venture to its interests in subsidiaries.

(vi) PAS 28 (Amendment), *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associates or Joint Venture* (effective from January 1, 2016). The amendment to PFRS 10 requires full recognition in the investor's financial statements of gains or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3, *Business Combinations*, between an investor and its associate or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor's interests in an associate or joint venture) only applies to those sale of contribution of assets that do not constitute a business. Corresponding amendment has been made to PAS 28 to reflect these changes. In addition, PAS 28 has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction.

(vii) PFRS 9 (2014), *Financial Instruments* (effective from January 1, 2018). This new standard on financial instruments will eventually replace PAS 39 and PFRS 9 (2009, 2010 and 2013 versions). This standard contains, among others, the following:

- three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments;

- an expected loss model in determining impairment of all financial assets that are not measured at fair value through profit or loss (FVTPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and,

- a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

In accordance with the financial asset classification principle of PFRS 9 (2014), a financial asset is classified and measured at amortized cost if the asset is held within a business model whose objective is to hold financial assets in order to collect the contractual cash flows that represent solely payments of principal and interest (SPPI) on the principal outstanding. Moreover, a financial asset is classified and subsequently measured at fair value through other comprehensive income if it meets the SPPI criterion and is held in a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets. All other financial assets are measured at FVTPL.

In addition, PFRS 9 (2014) allows entities to make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in other comprehensive income.

For liabilities, the standard retains most of the PAS 39 requirements which include amortized cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The amendment also requires changes in the fair value of an entity's own debt instruments caused by changes in its own credit quality to be recognized in other comprehensive income rather than in profit or loss.

The Company does not expect to implement and adopt PFRS 9 (2014). In addition, management is currently assessing the impact of PFRS 9 (2014) on the financial statements of the Company and it will conduct a comprehensive study of the potential impact of this standard prior to its mandatory adoption date to assess the impact of all changes.

(viii) Annual Improvements to PFRS. Annual improvements to PFRS (2010-2012 Cycle) and PFRS (2011-2013 Cycle) effective for annual periods beginning on or after July 1, 2014, and to PFRS (2012-2014 Cycle) effective for annual periods beginning on or after January 1, 2016, made minor amendments to a number of PFRS. Among those improvements, the following amendments are relevant to the Company but management does not expect those to have material impact on the Company's financial statements:

Annual Improvements to PFRS (2010-2012 Cycle)

(a) PAS 16 (Amendment), *Property, Plant and Equipment* and PAS 38 (Amendment), *Intangible Assets*. The amendments clarify that when an item of property, plant and equipment, and intangible assets is revalued, the gross carrying amount is adjusted in a manner that is consistent with a revaluation of the carrying amount of the asset.

(b) PAS 24 (Amendment), *Related Party Disclosures*. The amendment clarifies that an entity providing key management services to a reporting entity is deemed to be a related party of the latter. It also clarifies that the information required to be disclosed in the financial statements are the amounts incurred by the reporting entity for key management personnel services that are provided by a separate management entity and not the amounts of compensation paid or payable by the management entity to its employees or directors.

(c) PFRS 13 (Amendment), *Fair Value Measurement*. The amendment in the basis of conclusion of PFRS 13 clarifies that issuing PFRS 13 and amending certain provisions of PFRS 9 and PAS 39 related to discounting of financial instruments did not remove the ability to measure short-term receivables and payables with no stated interest rate on an undiscounted basis, when the effect of not discounting is immaterial.

Annual Improvements to PFRS (2011-2013 Cycle)

(a) PFRS 13 (Amendment), *Fair Value Measurement*. The amendment clarifies that the scope of the exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis (the portfolio exception) applies to all contracts within the scope of and accounted for in accordance with PAS 39 or PFRS 9, regardless of whether they meet the definition of financial assets or financial liabilities as defined in PAS 32.

(b) PAS 40 (Amendment), *Investment Property*. The amendment clarifies the interrelationship of PFRS 3 and PAS 40 in determining the classification of property as an investment property or owner-occupied property, and explicitly requires an entity to use judgment in determining whether the acquisition of an investment property is an acquisition of an asset or a group of asset in accordance with PAS 40, or a business combination in accordance with PFRS 3.

Annual Improvements to PFRS (2012-2014 Cycle)

(a) PFRS 7 (Amendment), *Financial Instruments – Disclosures*. The amendment provides additional guidance to help entities identify the circumstances under which a contract to "service" financial assets is considered to be a continuing involvement in those assets for the purposes of applying the disclosure requirements of PFRS 7. Such circumstances commonly arise when, for example, the servicing is dependent on the amount or timing of cash flows collected from the transferred asset or when a fixed fee is not paid in full due to non-performance of that asset.

(b) PAS 19 (Amendment), *Employee Benefits*. The amendment clarifies that the currency and term of the high quality corporate bonds which were used to determine the discount rate for post-employment benefit obligations shall be made consistent with the currency and estimated term of the post-employment benefit obligations.

2.3 Financial Assets

Financial assets are recognized when the Company becomes a party to the contractual terms of the financial instrument. Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at FVTPL, loans and receivables, held-to-maturity (HTM) investments and available-for-sale (AFS) financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired.

Regular purchases and sales of financial assets are recognized on their trade date. All financial assets that are not classified as at FVTPL are initially recognized at fair value plus any directly attributable transaction costs. Financial assets carried at FVTPL are initially recorded at fair value and the related transaction costs are recognized in profit or loss.

A more detailed description of the four categories of financial assets is as follows:

(a) Financial Assets at FVTPL

This category includes financial assets that are either classified as held for trading or that meets certain conditions and are designated by the entity to be carried at fair value through profit or loss upon initial recognition. All derivatives fall into this category, except for those designated and effective as hedging instruments. Assets in this category are classified as current if they are either held for trading or are expected to be realized within 12 months from the end of the reporting period.

Financial assets at FVTPL are measured at fair value, and changes therein are recognized in profit or loss. Financial assets (except derivatives and financial instruments originally designated as financial assets at fair value through profit or loss) may be reclassified out of FVTPL category if they are no longer held for the purpose of being sold or repurchased in the near term.

(b) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period which are classified as non-current assets.

The Company's financial assets categorized as loans and receivables are presented as Cash in Banks, Trade and Other Receivables and Advances to Related Parties in the statement of financial position. Cash in banks are defined as demand deposits which are unrestricted as to withdrawal.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any. Impairment loss is provided when there is an objective evidence that the Company will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate or current effective interest rate determined under the contract if the loan has a variable interest rate.

The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognized in profit or loss.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in profit or loss.

(c) HTM Investments

This category includes non-derivative financial assets with fixed or determinable payments and a fixed date of maturity that the Company has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. If the Company were to sell other than an insignificant amount of HTM investments, the whole category would be tainted and reclassified to AFS financial assets. HTM investments are included in non-current assets under the Other Non-current Financial Assets account in the statement of financial position, except those maturing within 12 months from the end of the reporting period, which are presented as part of current assets. The Company currently holds preferred shares with fixed date of redemption designated into this category.

Subsequent to initial recognition, HTM investments are measured at amortized cost using the effective interest method, less impairment losses, if any. Impairment loss, which is the difference between the carrying value and the present value of estimated future cash flows of the investment, is recognized when there is objective evidence that the investment has been impaired.

(d) AFS Financial Assets

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. They are included in non-current assets under the Other Non-current Financial Assets account in the statement of financial position unless management intends to dispose of the investment within 12 months from the end of the reporting period. The Company's AFS financial assets include only equity securities.

All financial assets within this category are subsequently measured at fair value. Gains and losses from changes in fair value are recognized in other comprehensive income, net of any income tax effects, and are reported as part of the Revaluation Reserves account in equity, except for interest and dividend income, impairment losses and foreign exchange differences on monetary assets, which are recognized in profit or loss.

When the financial asset is disposed of or is determined to be impaired, that is, when there is a significant or prolonged decline in the fair value of the security below its cost, the cumulative fair value gains or losses recognized in other comprehensive income is reclassified from equity to profit or loss and is presented as reclassification adjustment within other comprehensive income or loss even though the financial asset has not been derecognized.

Reversal of impairment losses are recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

All income and expenses, including impairment losses, relating to financial assets that are recognized in profit or loss are presented as part of Finance Costs – net in the statement of comprehensive income.

Non-compounding interest, dividend income and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

The 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 Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

2.4 Inventories

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

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

2.5 Prepayments and Other Current Assets

Prepayments and other current assets pertain to other resources controlled by the Company as a result of past events. They are recognized in the financial statement when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably.

Other recognized assets of similar nature, where future economic benefits are expected to flow to the Company 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 2.15).

2.6 Property and Equipment

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

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

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

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

Amortization of leasehold improvements is recognized over their estimated useful life of 13 years, regardless of the term of the lease as management believes that it is probable that the Company will renew the lease agreement for the warehouses where the property and equipment and the office are located, for a period of time that may extend beyond the current lease term [see Note 3.1(e)].

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

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

An asset's carrying amount is written-down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.15).

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising 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.

2.7 Investment Properties

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

Investment property is accounted for under the cost model and is measured initially at acquisition cost. The cost of the asset is comprised of its purchase price and directly attributable costs of preparing the asset for its intended use.

An asset's carrying amount is written-down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.15).

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.

2.8 Investment in an Associate

An associate is an entity over which the Company is able to exert significant influence but which are neither subsidiary nor interests in a joint venture. Investment in an associate is initially recognized at cost and subsequently accounted for using the equity method.

All subsequent changes to the ownership interest in the equity of the associate are recognized in the Company's carrying amount of the investment. Changes resulting from the profit or loss generated by the associate are credited or charged against the Equity in Net Earnings or Losses of an Associate account in profit or loss.

Impairment loss is provided when there is objective evidence that the investment in an associate will not be recovered (see Note 2.15).

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

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

2.9 Financial Liabilities

Financial liabilities, which include Trade and Other Payables (excluding tax-related liabilities), Loans Payable and Advances from Related Parties, are recognized when the Company 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 – net in the statement of comprehensive income.

The loans payable and trust receipts payable (presented as part of Trade and Other Payables) was raised for working capital requirements. Finance charges are charged to profit or loss on an accrual basis using the effective interest method and are added to the carrying amount of the instrument to the extent that these are not settled in the period in which they arise.

Trade and other payables and due to related parties 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 Company 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 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.

2.10 Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the statement of financial position when the Company 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.

2.11 Provisions and Contingencies

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

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

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Company that do not yet meet the recognition criteria of an asset are considered contingent assets; hence, are not recognized in the financial statements. On the other hand, any reimbursement that the Company 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.

2.12 Revenue and Expense Recognition

Revenue comprises revenue from sale of goods measured by reference to the fair value of consideration received or receivable by the Company, excluding value-added tax (VAT), rebates and trade discounts, if any.

Revenue is recognized to the extent that the revenue can be reliably measured; it is probable that the economic benefits will flow to the Company; and the costs incurred or to be incurred can be measured reliably. In addition, the following specific recognition criteria must also be met before revenue is recognized:

(a) *Sale of goods* – Revenue is recognized when the risks and rewards of ownership of the goods have passed to the buyer, which generally coincides with the delivery of the goods sold.

(b) *Interest income* – This is recognized as the interest accrues taking into account the effective yield on the asset.

Cost and expenses are recognized in profit or loss upon receipt of goods or utilization services or at the date they are incurred. All finance costs are reported in profit or loss on an accrual basis, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset (see Note 2.17).

2.13 Lease – Company as Lessee

(a) *Company as Lessee*

Lease which do not transfer to the Company substantially all the risks and benefits of ownership of the asset is classified as operating lease. Operating lease payments are recognized as expense in the profit or loss on a straight-line basis over the lease term. Associated costs, such as repairs and maintenance and insurance, are expensed as incurred.

(b) *Company 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 Company determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

2.14 Foreign Currency Translation and Transactions

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

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

2.15 Impairment of Non-financial Assets

The Company's property and equipment, investment properties, investment in an associate 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 Company'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.

2.16 Employee Benefits

The Company provides post-employment benefits to employees through a defined benefit plan and defined contribution plan which are recognized as follows:

(a) Post-employment Defined Benefit Plan

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

The liability recognized in the statement of financial position for a defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using a discount rate derived from the interest rates of zero coupon government bonds as published by Philippine Dealing and Exchange Corporation, that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

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

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

(b) Post-employment Defined Contribution Plan

A defined contribution plan is a post-employment plan under which the Company pays fixed contributions into an independent entity. The Company 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.

2.17 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.

2.18 Income Taxes

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

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

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

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted, that is, when the investment property is depreciable and is held within the business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

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

The Company establishes liabilities for probable and estimable assessments by the Bureau of Internal Revenue (BIR) resulting from any known tax exposures. Estimates represent a reasonable provision for taxes ultimately expected to be paid and may need to be adjusted over time as more information becomes available.

2.19 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Company'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 Company's revenue sources as disclosed in Note 26, which represent the main revenue sources provided by the Company.

The measurement policies the Company uses for segment reporting under PFRS 8, *Operating Segments*, are the same as those used in its financial statements, except that the following are not included in the calculation of the operating profit of the operating segments:

- post-employment benefit expenses; and,
- fair value losses from financial assets at FVTPL.

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.

2.20 Related Party Transactions and Relationships

Related party transactions are transfers of resources, services or obligations between the Company 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 Company; (b) associates; and, (c) individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the Company and close members of the family of any such individual.

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

2.21 Equity

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

Additional paid-in capital includes any premium received on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.

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

Retained earnings, the appropriated portion of which is not available for distribution, represent all current and prior period results of operations as reported in the profit or loss section of the statement of comprehensive income.

2.22 Earnings per Share

Basic earnings per share (EPS) is computed by dividing net profit attributable to equity holders of the 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, 2014 and 2013, the Company does not have dilutive potential shares outstanding; hence, the diluted earnings per share is equivalent to the basic earnings per share.

2.23 Events After the End of the Reporting Period

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.1 Critical Management Judgments in Applying Accounting Policies

In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimation, which have the most significant effect on the amounts recognized in the financial statements:

(a) Classifying Financial Assets as HTM Investments

In classifying non-derivative financial assets with fixed or determinable payments and fixed maturity, such as preferred shares, as HTM investments, the Company evaluates its intention and ability to hold such investments up to maturity. Management has confirmed its intention and determined its ability to hold the investments up to maturity. If the Company fails to keep these investments to maturity other than for specific circumstances as allowed under the applicable PFRS, it will be required to reclassify the whole class as AFS financial assets. In such a case, the investments would, therefore, be measured at fair value, not at amortized cost.

(b) Determining Impairment of AFS Financial Assets

The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment, the Company evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

Based on the recent evaluation of information and circumstances affecting the Company's AFS financial assets, management has assessed that no impairment loss is to be recognized in 2014.

(c) Distinguishing Investment Properties and Owner-managed Properties

The Company determined that its parcels of land qualify as investment properties. In making its judgment, the Company 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 Company's main line of business. Based on management's assessment, the properties qualify as investment properties.

(d) Distinguishing Operating and Finance Lease

The Company has entered into various lease agreements. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or a finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreement. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities. Based on management's judgment, such leases were determined to be operating leases.

(e) Amortizing Leasehold Improvements

The Company amortizes leasehold improvements over the estimated useful life of the improvements regardless of the term of the lease because management believes that it is probable that the Company will renew the lease agreement for the warehouses where it operates for a period of time that will extend beyond the current term of the lease.

(f) Recognizing Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.11 and disclosures on relevant provisions and contingencies are presented in Note 21.

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) Estimating Impairment of Trade and Other Receivables and Advances to Related Parties

Adequate amount of allowance for impairment is provided for specific and groups of accounts, where objective evidence of impairment exists. The Company evaluates the amount of allowance for impairment based on available facts and circumstances affecting the collectibility of the accounts, including, but not limited to, the length of the Company's relationship with the customers and counterparties, the customers' and counterparties' current credit status, average age of accounts, collection experience and historical loss experience.

Management determined that no impairment loss on trade and other receivables and advances to related parties should be recognized for the years ended December 31, 2014, 2013 and 2012 based on its assessment of the collectability of the accounts.

(b) Determining Fair Value Measurement for Financial Instruments

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the end of the reporting period.

The carrying values of the Company's financial assets at FVTPL and AFS financial assets and the amounts of fair value changes recognized on those assets are disclosed in Notes 6 and 7, respectively.

(c) Determining NRV of Inventories

In determining the NRV of inventories, management takes into account the most reliable evidence available at the times the estimates are made. It also takes into consideration the obsolescence of the inventory in determining NRV. The future realization of the carrying amounts of inventories as disclosed in Note 5 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 Company's inventories within the next reporting period. Management believes that Company's inventories are properly valued at lower of cost and NRV as of December 31, 2014 and 2013.

(d) Estimating Useful Lives of Property and Equipment

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

The carrying amounts of property and equipment are presented in Note 10. Based on management's assessment as at December 31, 2014 and 2013, there is no change in the estimated useful lives of those assets during those periods. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

Approved by:

Name:
Date:

(e) Assessing Impairment of Non-financial Assets

PFRS requires that an impairment review be performed when certain impairment indicators are present. The Company's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.15. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these 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, 2014, 2013 and 2012 based on management's assessment.

(f) Valuation of Post-employment Defined Benefit Obligation

The determination of the Company's obligation and cost of post-employment defined benefit and other retirement benefits 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 17.2.

(g) Determining Realizable Amount of Deferred Tax Assets

The Company 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, 2014 and 2013 will be fully utilized subsequently. The carrying value of deferred tax assets is disclosed in Note 19.

4. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

	Note		**2014**		2013
Trade receivables	18.1	**P**	**100,098,695**	P	84,829,795
Other receivables			**106,084**		62,084
		P	**100,204,779**	P	84,891,879

Trade receivables are usually due within 30 to 60 days and do not bear any interest. All of the Company's trade and other receivables have been reviewed for indicators of impairment. Based on management's assessment, no impairment loss should be recognized for the years ended December 31, 2014, 2013 and 2012.

Approved by:

Name:
Date:

In 2014, the Company sold merchandise inventories to its related party in which the amount of receivable of P51.4 million was offset against the Advances from Related Parties account as part of their master offsetting arrangement (see Note 24.2).

5. INVENTORIES

Except for the portion of inventories stated at NRV, inventories at the end of 2014 and 2013 were stated at cost. The details of inventories are shown below.

	2014	2013
At cost	**P 1,207,799,783**	P 987,157,822
At net realizable value:		
Cost	**613,625,094**	807,271,429
Allowance for inventory write-down	**(263,496,492)**	(311,570,010)
	350,128,602	495,701,419
	P 1,557,928,385	P 1,482,859,241

An analysis of the cost of inventories included in cost of sales as of December 31, 2014 and 2013 is presented in Note 14.

In 2014, the Company recognized a gain of P48.1 million following the sale and recovery of certain merchandise inventories in which costs were written-down to its NRV in previous years (see Note 18.1). This recovery is presented as a deduction from the Cost of Sales account in the 2014 statement of comprehensive income (see Note 14). There were no recognized and reversal of inventory write-down in 2013 and 2012.

6. FINANCIAL ASSETS AT FVTPL

Financial assets at FVTPL consist of equity interest in a company wherein shares are listed in the Philippine Stock Exchange (PSE). The reconciliation of the carrying amounts of FVTPL financial assets follow:

	2014	2013
Balance at beginning of year	**P 51,916,950**	P 64,182,800
Purchases	**5,959,325**	49,346,328
Disposal	**(27,998,460)**	(50,294,923)
Fair value loss	**(618,100)**	(11,317,255)
Balance at end of year	**P 29,259,715**	P 51,916,950

In 2014 and 2013, the Company recognized gain from sale of equity securities amounting to P6.1 million and P9.1 million, respectively, which is presented as Gain on sale of financial assets at FVTPL under the Finance Costs – net account in the statements of comprehensive income (see Note 16). There was no gain or loss on sale recognized in 2012.

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Date:

The Company recognized fair value losses amounting to P0.6 million and P11.3 million in 2014 and 2013, respectively, and fair value gains amounting to P32.0 million in 2012, which is presented as Fair value loss (gain) on financial assets at FVTPL under the Finance Costs – net account in the statements of comprehensive income, due to the mark-to-market valuation of the financial assets as of December 31, 2014, 2013 and 2012 (see Note 16).

7. OTHER NON-CURRENT FINANCIAL ASSETS

The amounts in the statement of financial position as of December 31, 2014 comprise the following categories of financial assets:

HTM Investment –		
Debt securities – preferred shares	P	250,000,000
AFS Financial Asset –		
Equity securities – common shares		124,488
	P	250,124,488

7.1 HTM Investments

HTM investments represent debt securities in a company wherein shares are listed in the PSE and pertain to cumulative, non-voting, class "B" series 2 preferred shares which bear fixed interest rate of 5.58% per annum and will mature on November 5, 2019. Aside from the maturity date, these investments have an optional redemption date on November 5, 2024 and on any dividend payment date thereafter.

7.2 AFS Financial Asset

The reconciliation of the carrying amounts of AFS financial asset is as follows:

	Note		
Balance at beginning of year		P	-
Addition			894,985
Disposal		(	96,929)
Fair value loss	20.2	(	673,568)
Balance at end of year		P	124,488

The Company's AFS financial asset represents equity interest in a company wherein shares are listed in the PSE. The fair value of the shares declined by P0.7 million in 2014. These losses were not considered permanent; hence, were recognized as part of Other Comprehensive Loss, identified as an item that will be reclassified subsequently to profit or loss (see Note 20.2).

The fair value of AFS financial asset has been determined based on quoted prices in active markets (see Note 25).

Approved by:

Name:
Date:

8. INVESTMENT IN AN ASSOCIATE

In 2012, the Company acquired 192,499 shares of Neschester Corporation (Neschester), a related company incorporated in the Philippines, with P100 par value per share for a total consideration of P19.2 million, representing 35% equity ownership interest in the investee. The registered office of the investee company, which is also its principal place of business, is located at 9/F Sage House, 110 V.A. Rufino St., Legaspi Village, Makati City. The carrying amount of this investment as of December 31, 2014 and 2013 is presented as Investment in an Associate in the statements of financial position.

The Company's management believes that it does not have effective control over the investee company but a significant influence only. Consequently, the Company accounted for its investment in the investee company under the equity method.

In 2014, the Company recognized its share in the net loss of Neschester which amounted to P0.9 million. No share in net loss of Neschester was recognized in 2013 and 2012 as the management believes that this will not have a significant impact in the Company's financial statements presented during those years.

The aggregated amounts of assets, liabilities, revenues and net loss of the associate are as follows:

	Assets	Liability	Expenses	Net Loss
2014	**P 303,182,825**	**P 250,773,747**	**P 2,462,172**	**P 2,460,594**
2013	P 54,869,673	P -	P 130,327	P 130,327

9. PREPAYMENTS AND OTHER CURRENT ASSETS

This account is composed of the following:

	Note	2014	2013
Input VAT	27.1(b)	**P 151,738,315**	P 148,876,144
Prepaid expenses		**2,270,354**	1,789,366
Creditable withholding tax		**-**	1,298,156
		P 154,008,669	P 151,963,666

Prepaid expenses pertain mainly to advance payments made on real property taxes.

10. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of property and equipment at the beginning and end of 2014 and 2013 are shown in the succeeding page.

Approved by:

Name:
Date:

	Leasehold Improvements	Transportation and Other Equipment	Furniture and Fixtures	Total
December 31, 2014				
Cost	P 6,744,206	P 34,521,118	P 4,157,608	P 45,422,932
Accumulated depreciation and amortization	(2,040,953)	(18,568,740)	(2,600,990)	(P 23,210,683)
Net carrying amount	**P 4,703,253**	**P 15,952,378**	**P 1,556,618**	**P 22,212,249**
December 31, 2013				
Cost	P 6,618,248	P 30,051,295	P 3,751,188	P 40,420,731
Accumulated depreciation and amortization	(1,529,343)	(12,832,216)	(2,102,751)	(16,464,310)
Net carrying amount	P 5,088,905	P 17,219,079	P 1,648,437	P 23,956,421
January 1, 2013				
Cost	P 6,189,792	P 26,296,102	P 2,948,248	P 35,434,142
Accumulated depreciation and amortization	(995,532)	(7,357,369)	(1,693,979)	(10,046,880)
Net carrying amount	P 5,194,260	P 18,938,733	P 1,254,269	P 25,387,262

A reconciliation of the carrying amounts of property and equipment at the beginning and end of 2014 and 2013 is shown below.

	Leasehold Improvements	Transportation and Other Equipment	Furniture and Fixtures	Total
Balance at January 1, 2014, net of accumulated depreciation and amortization	P 5,088,905	P 17,219,079	P 1,648,437	P 23,956,421
Additions	125,958	4,469,823	406,421	5,002,202
Depreciation and amortization charges for the year	(511,610)	(5,736,524)	(498,240)	(6,746,374)
Balance at December 31, 2014, net of accumulated depreciation and amortization	**P 4,703,253**	**P 15,952,378**	**P 1,556,618**	**P 22,212,249**
Balance at January 1, 2013, net of accumulated depreciation and amortization	P 5,194,260	P 18,938,733	P 1,254,269	P 25,387,262
Additions	428,456	3,755,193	794,558	4,978,207
Depreciation and amortization charges for the year	(533,811)	(5,474,847)	(400,390)	(6,409,048)
Balance at December 31, 2013 net of accumulated depreciation and amortization	P 5,088,905	P 17,219,079	P 1,648,437	P 23,956,421

In 2014, 2013 and 2012, the Company's recognized depreciation and amortization is presented under Other Operating Expenses in the statements of comprehensive income (see Note 14).

Approved by:

Name:
Date:

11. INVESTMENT PROPERTIES

The Company's investment properties represent parcels of land held for lease and capital appreciation. Currently, certain investment properties are being leased out to third parties for an average lease term of one year in 2014 and seven months in 2013 with no escalation rate. A reconciliation of the carrying amount of investment properties at the beginning and end of 2014 and 2013 is shown below.

		2014		2013
Balance at beginning of year	**P**	**949,016,529**	P	943,256,656
Additions during the year		**6,271,013**		5,759,873
Balance at end of year	**P**	**955,287,542**	P	949,016,529

Rental revenues earned by the Company from lease and sub-lease transactions, amounting to P73.2 million in 2014, P58.9 million in 2013 and P11.0 million in 2012, is presented as Other Operating Income in the statements of comprehensive income (see Note 15). Real property tax on investment properties amounting to P3.0 million in 2014 and P2.8 million for both 2013 and 2012 was recognized and presented as part of Taxes and licenses under Other Operating Expenses in the statements of comprehensive income [see Notes 14 and 27.1(f)].

The carrying amount of investment properties are used as collateral to secure the loans from local banks (see Note 13).

The fair market values of these properties as of December 31, 2014 and 2013 which are determined by reference to current and most recent prices for similar property in the same location and condition amounted to P2.9 billion (see Note 25).

The Company's management believes that the investment properties are not impaired as the fair value of these properties as of the end of the reporting periods exceeds their carrying amount as reported in the statements of financial position.

12. TRADE AND OTHER PAYABLES

This account consists of:

	Notes		**2014**		2013
Trust receipts payable		**P**	**390,164,890**	P	149,775,156
Trade payables			**5,639,261**		2,627,514
Security deposits and advance rentals	21.1		**19,601,171**		19,348,375
Accrued expenses and other payables	13, 18		**7,418,677**		12,936,104
		P	**422,823,999**	P	184,687,149

Approved by:

Name:
Date:

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

In 2014, 2013 and 2012, the Company obtained unsecured, interest-bearing short-term trust receipts from local banks for its working capital requirements. The loans bear annual interest rates ranging from 2.5% to 4.5% in 2014, 2013 and 2012 and have average maturity of one to seven months.

Interest expense incurred on these transactions in 2014, 2013 and 2012 amounted to P6.6 million, P11.4 million and P15.5 million, respectively, and is presented as part of Interest expense under Finance Costs - net in the statements of comprehensive income (see Note 16). Total unpaid interest amounted to P0.8 million as of December 31, 2013, and is presented as part of Accrued expenses and other payables in the 2013 statement of financial position. There is no unpaid interest as of December 31, 2014.

13. LOANS PAYABLE

This account includes the following as at December 31:

	2014	2013
Current	**P 261,500,000**	P 808,000,000
Non-current	**1,163,500,000**	1,595,000,000
	P 1,425,000,000	P 2,403,000,000

A reconciliation of the movements in the amount of loans payable at the beginning and end of 2014 and 2013 is shown below.

	2014	2013
Balance at beginning of year	**P 2,403,000,000**	P 2,049,500,000
Availments during the year	**550,000,000**	2,316,750,000
Settlements made	**(1,528,000,000)**	(1,963,250,000)
Balance at end of year	**P 1,425,000,000**	P 2,403,000,000

In current and prior years, the Company obtained secured and unsecured, short-term and long-term interest-bearing loans from local banks. The loans bear annual interest rates ranging from 3.0% to 5.0% in 2014 and 2.9% to 8.0% both in 2013 and 2012 in which the proceeds were used for working capital requirements.

Interest expense incurred on these loans in 2014, 2013 and 2012 amounted to P88.4 million, P84.7 million and P115.7 million, respectively, and is presented as part of Interest expense under Finance Costs - net in the statements of comprehensive income (see Note 16). Total unpaid interest amounted to P0.5 million as of December 31, 2013, and is presented as part of Accrued expenses and other payables under Trade and Other Payables in the 2013 statement of financial position (see Note 12). There is no unpaid interest as of December 31, 2014.

Approved by:

Name:
Date:

The carrying amount of investment properties as of December 31, 2014 and 2013 are used as collateral to secure certain long-term loans (see Note 11).

14. OPERATING EXPENSES BY NATURE

The components of the Company's cost of sales follow:

	Note	2014	2013	2012
Merchandise inventory, beginning	5	**P 1,794,429,251**	P 1,757,573,932	P 1,798,754,057
Add: Purchases		**743,581,570**	617,086,933	749,547,165
Total goods available for sale		**2,538,010,821**	2,374,660,865	2,236,731,212
Less: Recovery on inventory write-down	5	**48,073,518**	-	-
Less: Merchandise inventory, end	5	**1,821,424,877**	1,794,429,251	1,757,573,932
		P 668,512,426	P 580,231,614	P 790,727,290

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

	Notes	2014	2013	2012
Professional fees	18.6	**P 33,228,887**	P 12,521,830	P 5,078,349
Salaries and wages	17.1	**16,098,594**	15,982,597	11,754,910
Taxes and licenses	11, 27.1(f)	**10,046,716**	8,026,397	1,084,238
Outside services		**7,384,434**	7,739,340	4,862,212
Depreciation and amortization	10	**6,746,374**	6,409,048	5,361,123
Repairs and maintenance		**4,749,183**	5,922,563	6,339,603
Representation		**3,944,334**	3,707,230	944,231
Transportation and travel		**3,718,155**	12,636,618	8,671,752
Trainings and seminar		**2,514,764**	2,479,628	2,000,010
Utilities		**2,477,280**	2,546,466	2,310,404
Commission		**1,980,024**	3,095,467	2,800,582
Insurance		**1,428,143**	8,517,985	5,728,722
Rental	18.4, 21.1	**1,096,473**	769,173	769,173
Dues and subscription		**1,094,211**	1,316,290	254,371
Office supplies		**900,153**	1,479,399	1,975,700
Advertising and promotions		**388,675**	371,618	266,769
Donations		**310,000**	667,000	889,849
Others		**2,283,107**	4,569,117	429,389
		P 100,389,507	P 98,757,766	P 61,521,387

15. OTHER OPERATING INCOME

In 2014, 2013 and 2012, certain properties are being leased out and sub-leased to third parties for an average lease term of one year in 2014 and seven months both in 2013 and 2012 with no escalation rate (see Note 21.1). Rental revenues, presented as Other Operating Income in the statements of comprehensive income, amounted to P73.2 million, P58.9 million and P11.0 million in 2014, 2013 and 2012, respectively (see Note 11).

Approved by:

Name:
Date:

16. FINANCE COSTS - Net

This account is composed of the following:

	Notes	2014	2013	2012
Interest expense	12, 13 17.2(b)	**P 95,086,591**	P 96,190,483	P 131,210,415
Gain on sale of financial assets	6	**(6,134,247)**	(9,139,704)	-
Fair value loss (gain) on financial assets at FVTPL	6	**618,100**	11,317,255	(31,981,102)
Others - net		**1,049,643**	(2,086,079)	(3,970,191)
		P 90,620,087	P 96,281,955	P 95,259,122

17. EMPLOYEE BENEFITS

17.1 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	2014	2013	2012
Short-term benefits		**P 15,931,621**	P 15,847,803	P 11,660,507
Post-employment benefits	17.2(b)	**166,973**	134,794	94,403
	14	**P 16,098,594**	P 15,982,597	P 11,754,910

17.2 Post-employment Defined Benefit Plan

(a) Characteristics of the Defined Benefit Plan

The Company, at present, has no formal, tax-qualified retirement plan. The Company accrues post-employment benefit based on the provisions of Republic Act 7641, *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 Company'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.

(b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made annually to update the retirement benefit costs. All amounts presented in the succeeding pages are based on the actuarial valuation report obtained from an independent actuary in 2014 and 2013.

Approved by:

Name:
Date:

The amounts of post-employment defined benefit obligation recognized in the statements of financial position amounts to P2.2 million and P1.2 million as of December 31, 2014 and 2013, respectively.

The amounts and movements in the present value of post-employment defined benefit obligation recognized in the statements of financial position are determined as follows:

		2014		2013
Balance at beginning of year	**P**	**1,188,861**	P	913,087
Current service cost		**166,973**		134,794
Interest cost		**54,093**		47,298
Remeasurements:				
Actuarial losses arising from:				
- experience adjustments		**748,932**		18,604
- changes in financial assumptions		**31,572**		75,078
Balance at end of year	**P**	**2,190,431**	P	1,188,861

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

		2014		2013		2012
Reported in profit or loss:						
Current service cost	**P**	**166,973**	P	134,794	P	94,403
Interest cost		**54,093**		47,298		43,683
	P	**221,066**	P	182,092	P	138,086
Reported in other comprehensive loss:						
Actuarial losses (gains) arising from changes in:						
- experience adjustments	**P**	**748,932**	P	18,604	(P	7,646)
- change in financial assumptions		**31,572**		75,078		171,689
	P	**780,504**	P	93,682	P	164,043

The interest cost is included as part of Finance Costs - net in the statements of comprehensive income (see Note 16).

Amounts recognized in other comprehensive 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:

	2014	2013	2012
Discount rates	**4.4%**	4.6%	5.2%
Expected rate of salary increases	**4.0%**	4.0%	4.0%

Approved by:

Name:
Date:

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.

(c) Risks Associated with the Retirement Plan

The plan exposes the Company 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.

(d) 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 below and 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, 2014 and 2013:

December 31, 2014:

	Impact on Post-employment Defined Benefit Obligation		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
Discount rate	+/- 1.0%	(P 198,054)	P 208,132
Salary growth rate	+/- 1.0%	206,145	(201,904)

Approved by:

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December 31, 2013:

	Impact on Post-employment Defined Benefit Obligation		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
Discount rate	+/- 1.0%	(P 115,975)	P 115,975
Salary growth rate	+/- 1.0%	121,992	(121,992)

The above 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 above 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 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, 2014, the Company 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:

	2014	2013
Within one year	**P 265,233**	P -
More than one year to five years	**634,717**	378,327
More than five years to ten years	**1,626,815**	1,053,429
More than ten years to 15 years	**4,978,000**	3,193,921
More than 15 years to 20 years	**1,528,544**	496,320
	P 9,033,309	P 5,121,997

18. RELATED PARTY TRANSACTIONS

The Company's related parties include its parent company, companies under common ownership and its key management personnel. The transactions with these related parties are discussed in the succeeding pages.

Approved by:

Name:
Date:

	Notes	Amount of Transactions 2014	Amount of Transactions 2013	Amount of Transactions 2012	Outstanding Balances Receivables (Payables) 2014	Outstanding Balances Receivables (Payables) 2013
Related Parties Under Common Ownership:						
Sale of goods	18.1	P 56,283,882	P 11,238,304	P -	P 51,442,897	P -
Advances granted	18.2	(740,550,680)	440,476,767	198,800,410	-	740,550,680
Advances obtained	18.3	(283,104,220)	199,619,526	200,241,002	(160,531,201)	(443,635,421)
Lease agreements	18.4	970,164	642,864	642,864	(327,300)	-
Key management personnel:						
Fees paid	18.6	3,582,076	2,231,462	2,231,462	(85,000)	-
Advances obtained	18.6	(538,661,400)	-	-	(538,661,400)	-

Based on management's assessment, receivables from related parties are not impaired as of December 31, 2014 and 2013.

18.1 Sale of Goods

In 2014 and 2013, the Company sold goods to Baler Industrial Corporation, a related party under common ownership, and to an entity owned by the Company's shareholder and Board Chairman, which is presented as part of Sale of Goods in the statements of comprehensive income. The outstanding receivable arising from this transaction as at December 31, 2014 is presented as part of Trade receivables under the Trade and Other Receivables account in the 2014 statement of financial position (see Note 4). There was no outstanding balance from this transaction as of December 31, 2013 and no similar transaction transpired in 2012.

18.2 Advances to Related Parties

In 2014 and 2013, the Company granted noninterest-bearing and unsecured advances to certain related parties under common ownership for working capital requirements. These advances have no repayment terms and are due and payable on demand. The outstanding receivable from these transactions as of December 31, 2013 is presented as Advances to Related Parties in the 2013 statement of financial position. In 2014, the Company entered into an assignment of its receivables and offsetting arrangement with related parties wherein the balance of the Company's advances to its affiliates were assigned in payment and set-off against the equivalent amount of the Company's advances from its shareholder and Board Chairman (see Note 24.2).

The movement of advances to related parties in 2014 and 2013 follows:

	2014	2013
Balance at beginning of year	P 740,550,680	P 300,073,913
Advances granted during the year	-	440,476,767
Collections during the year	(326,274,850)	-
Advances offset during the year	(414,275,830)	-
Balance at end of year	P -	P 740,550,680

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18.3 Advances from Related Parties Under Common Ownership

In 2014 and 2013, the Company obtained noninterest-bearing and unsecured advances from its related parties under common ownership for working capital requirements. These advances have no repayment terms and are due and payable on demand. The outstanding liability from these transactions is presented as part of Advances from Related Parties in the statements of financial position.

The movement of advances from related parties in 2014 and 2013 follows:

		2014		2013
Balance at beginning of year	**P**	**443,635,421**	P	244,015,895
Advances obtained during the year		**-**		199,619,526
Advances paid during the year	**(**	**283,104,220)**		-
Balance at end of year	**P**	**160,531,201**	P	443,635,421

18.4 Lease Agreements

The Company, as a lessee, entered into an operating lease agreement with Canon Realty and Development Corp., a related party under common ownership, covering a warehouse owned by the latter. The lease is for three years from January 1, 2010 up to December 31, 2012 renewable upon mutual agreement by both parties. In 2013, both parties agreed to extend the lease term for another three years up to December 31, 2015.

The Company, as a lessee, entered into another operating lease agreement with Aneco Realty and Development Corp., a related party under common ownership, covering a warehouse owned by the latter. The lease is for a three-year term from January 1, 2012 up to December 31, 2014 subject to automatic renewal unless agreed to be terminated by both parties. In 2015, the parties agreed to renew the lease for another two years or until December 31, 2016.

The Company, as a lessee, entered into another operating lease agreement with Joune Capital Holdings Corporation, a related party under common ownership, covering several parcels of land together with buildings and improvements owned by the latter. The lease term is up to December 2017.

Rental expense in 2014, 2013 and 2012 arising from the foregoing lease agreements is shown as part of Rentals under Other Operating Expenses in the statements of comprehensive income (see Notes 14 and 21.1). Outstanding liability arising from these transactions as of December 31, 2014 is shown as part of Accrued expenses and other payables under Trade and Other Payables in the 2014 statement of financial position (see Note 12). There was no outstanding liability arising from these transactions as of December 31, 2013.

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18.5 Cross Corporate Guarantee

In consideration of the group credit lines made available to the Company and certain of its affiliates by its bankers, the Company and said affiliates have agreed to cross-guarantee each other's obligation for short term loans obtained under the group credit facility (see Note 21.3). The Company's management assessed that the fair value of the guarantee liability, if any, is not significant to the financial statements.

18.6 Advances from and Payments to Key Management Personnel

Payments received by key management personnel pertain to service fees in 2014, 2013 and 2012 which are presented as part of Professional fees under Other Operating Expenses in the statements of comprehensive income (see Note 14). The outstanding liability on these services is presented as part of Accrued expenses and other payables under the Trade and Other Payables account in the 2014 statement of financial position (see Note 12). There is no outstanding liability from these fees as of December 31, 2013.

In 2014, the Company obtained noninterest-bearing and unsecured advances from its shareholder and Chairman of the Board for working capital requirements. These advances have no repayment terms and are due and payable on demand. A portion of these advances were paid by way of an assignment of the Company of its receivables from its affiliates for set-off against the Company's payables to the shareholder and Chairman of the Board under an assignment in payment arrangement (see Note 24.2). The outstanding liability from these advances is presented as part of Advances from Related Parties in the 2014 statement of financial position. There were no advances obtained in 2013.

The Company has availed of various credit line facilities in which availments are subject to cross suretyship arrangements including its shareholder-directors and continuing surety arrangement of shareholder and Chairman of the Board (see Note 21.3). The Company did not record the fair value of the guarantee liability because of the low probability of default in paying the borrowings.

19. TAXES

The components of tax expense as reported in the statements of comprehensive income are presented as follows:

	2014	2013	2012
Profit or loss:			
Regular corporate income tax (RCIT) at 30%	**P 43,597,383**	P 25,644,031	P 4,791,371
Deferred tax expense (income) relating to origination and reversal of temporary differences	**2,107,701**	(16,446,709)	12,985,849
	P 45,705,084	P 9,197,322	P 17,777,220
Other comprehensive loss -			
Deferred tax income relating to origination and reversal of other temporary differences	**(P 234,151)**	(P 28,105)	(P 49,213)

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The reconciliation of tax on pretax profit computed at the applicable statutory rates to tax expense reported in the profit or loss is as follows:

	2014	2013	2012
Tax on pretax profit at 30%	**P 43,763,181**	P 20,858,161	P 17,213,436
Tax effect of:			
Non-taxable income	**(1,815,603)**	(3,482,157)	-
Non-deductible expenses	**362,329**	1,415,649	563,784
Unrecognized deferred tax asset	**3,395,177**	-	-
Reversal of temporary difference	**-**	(9,594,331)	-
	P 45,705,084	P 9,197,322	P 17,777,220

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

	Statements of Financial Position		Statements of Comprehensive Income					
			Profit or Loss			Other Comprehensive Loss		
	2014	2013	2014	2013	2012	2014	2013	2012
Deferred tax liabilities -								
Unrealized foreign currency gains - net	**P -**	P 848,929	**(P 771,613)**	(P 342,128)	P 1,191,057	**P -**	P -	P -
Fair value gain on financial assets at FVTPL	**-**	-	**-**	(9,594,331)	9,594,331	**-**	-	-
Rental income	**-**	-	**-**	(2,291,100)	2,291,100	**-**	-	-
	-	848,929	**(771,613)**	(12,227,559)	13,076,488	**-**	-	-
Deferred tax assets:								
Fair value loss on financial assets at FVTPL	**-**	(3,395,177)	**3,395,177**	(3,395,177)	-	**-**	-	-
Share in net loss of associate	**(258,362)**	-	**(258,362)**	-	-	**-**	-	-
Advance rental	**(905,719)**	(741,241)	**(164,478)**	(741,241)	-	**-**	-	-
Retirement benefit obligation	**(329,433)**	(356,658)	**(50,092)**	(82,732)	(90,639)	**-**	-	-
Accumulated actuarial loss on retirement plan	**(311,469)**	(77,318)	**-**	-	-	**(234,151)**	(28,105)	(49,213)
Unrealized foreign currency losses - net	**(42,931)**	-	**(42,931)**	-	-	**-**	-	-
	(1,847,914)	(4,570,394)	**2,879,314**	(4,219,150)	(90,639)	**(234,151)**	(28,105)	(49,213)
Net Deferred Tax Assets	**(P 1,847,914)**	(P 3,721,465)						
Deferred Tax Expense (Income)			**P 2,107,701**	(P 16,446,709)	P 12,985,849	**(P 234,151)**	(P 28,105)	(P 49,213)

The Company is subject to minimum corporate income tax (MCIT) which is computed at 2% of gross income, as defined under the tax regulations or the RCIT, whichever is higher. In 2014, 2013 and 2012, the Company recognized RCIT as the RCIT is higher than the MCIT in those years.

In 2014, 2013 and 2012, the Company opted to claim itemized deductions in computing its income tax due.

20. EQUITY

20.1 Capital Stock

Capital stock consists of common shares with details as follows:

	Note	Shares			Amount		
		2014	2013	2012	2014	2013	2012
Authorized – P1 par value in 2014 and P100 par value in 2013 and 2012:	1						
Balance at beginning of year		**220,000**	220,000	220,000	**P 22,000,000**	P 22,000,000	P 22,000,000
Change due to decrease in par value		**-**	-	-	**(21,780,000)**	-	-
Increase during the year		**1,549,780,000**	-	-	**1,549,780,000**	-	-
Balance at end of year		**1,550,000,000**	220,000	220,000	**P 1,550,000,000**	P 22,000,000	P 22,000,000

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	Shares			Amount		
	2014	2013	2012	**2014**	2013	2012
Issued and outstanding:						
Balance at beginning of year	**220,000**	220,000	220,000	**P 22,000,000**	P 22,000,000	P 22,000,000
Issuances during the year:						
Change due to decrease in par value	**21,780,000**	-	-	**-**	-	-
Collection of subscription receivable	**240,000,000**	-	-	**240,000,000**	-	-
Balance at end of year	**262,000,000**	220,000	220,000	**P 262,000,000**	P 22,000,000	P 22,000,000
Subscribed:						
Balance at beginning of year	**220,000**	220,000	220,000	**P 22,000,000**	P 22,000,000	P 22,000,000
Change due to decrease in par value	**21,780,000**	-	-	**-**	-	-
Additional subscription during the year	**405,000,000**	-	-	**405,000,000**	-	-
Balance at end of year	**427,000,000**	220,000	220,000	**P 427,000,000**	P 22,000,000	P 22,000,000
Subscription receivable:						
Balance at beginning of year				**P -**	P -	P -
Additions during the year				**405,000,000**		
Collections during the year				**(240,000,000)**	-	-
Balance at end of year				**P 165,000,000**	P -	P -
				P 262,000,000	P 22,000,000	P 22,000,000

As of December 31, 2014 and 2013, the Company has 13 and six stockholders, respectively, owning 100 or more shares each of the Company's capital stock.

20.2 Revaluation Reserves

The components and reconciliation of items of other comprehensive loss presented in the statements of changes in equity at their aggregate amount under Revaluation Reserves account, are shown below and in the succeeding page.

	AFS Financial Assets (see Note 7.2)	**Defined Benefit Obligation**	**Total**
Balance as of January 1, 2014	P -	P 180,407	P 180,407
Remeasurements of defined benefit post-employment obligation	-	780,504	780,504
Fair value losses on AFS financial assets	673,568	-	673,568
Other comprehensive loss before tax	673,568	780,504	1,454,072
Tax income	-	(234,151)	(234,151)
Other comprehensive loss after tax	673,568	546,353	1,219,921
Balance as of December 31, 2014	**P 673,568**	**P 726,760**	**P 1,400,328**
Balance as of January 1, 2013	P -	P 114,830	P 114,830
Remeasurements of defined benefit post-employment obligation	-	93,682	93,682
Other comprehensive loss before tax	-	93,682	93,682
Tax income	-	(28,105)	(28,105)
Other comprehensive loss after tax	-	65,577	65,577
Balance as of December 31, 2013	P -	P 180,407	P 180,407

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20.3 Retained Earnings

In 2014, the Company's BOD approved the reversal of the P275.0 million appropriated retained earnings for the planned acquisition of a parcel of land and construction of a building in relation to its corporate expansion project.

On December 29, 2014, the Company's BOD approved the declaration of cash dividends amounting to P265.5 million in favor of stockholders of record as of the same date in proportion to their shareholdings in the Company.

The outstanding dividends payable as of December 31, 2014 amounting to P265.5 million is presented as Dividends Payable in the 2014 statement of financial position.

20.4 Earnings per Share

Basic earnings per share are computed as follows:

	2014	2013	2012
Income available to common shares	**P 100,172,187**	P 60,329,880	P 39,600,899
Divided by the weighted average number of outstanding common shares	**55,750,000**	22,000,000	22,000,000
Basic earnings per share	**P 1.80**	P 2.74	P 1.80

21. COMMITMENTS AND CONTINGENCIES

21.1 Operating Lease Commitments – Company as Lessor

Some of the real properties held by the Company as investment properties are leased out for certain commercial uses under an operating lease agreement (see Note 15). The leases have a maximum term of one year, with an option to renew under terms and conditions to be agreed upon by the parties. Also, the Company has a leased property that it subleases initially for a term of three years which was subsequently renewed in December 2014 for another three years until December 2017. The average annual rentals covering these operating leases amounted to P4.9 million, P4.6 million and P3.8 million for 2014, 2013 and 2012, respectively.

The security deposits which may be refunded to the counterparties at the end of the lease term and advance rentals which may be applied as lease payments amounted to P19.6 million and P19.3 million as of December 31, 2014 and 2013, respectively, and is presented under Trade and Other Payables account in the statements of financial position (see Note 12).

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21.2 Operating Lease Commitments – Company as Lessee

The Company is a lessee under three-year operating lease agreements with certain related parties covering certain warehouses with no escalation rate (see Note 18.4). The future minimum lease payable under these non-cancellable operating leases as of December 31 follows:

		2014		2013		2012
Within one year	**P**	**970,164**	P	642,864	P	107,148
More than one year but less than five years		**761,748**		535,716		107,148
	P	**1,731,912**	P	1,178,580	P	214,296

Rentals incurred amounting to P1.1 million in 2014 and P0.8 million in both 2013 and 2012 is shown as part of Rentals under Other Operating Expenses in the statements of comprehensive income (see Notes 14 and 18.4). Outstanding liability arising from these transactions amounted to P0.3 million and shown as part of Accrued expenses and other payables under Trade and Other Payables in the 2014 statement of financial position (see Note 12). There was no outstanding liability arising from these transactions as of December 31, 2013.

21.3 Credit Facilities

The Company has availed of various credit line facilities made available on group basis to the Company, certain of its affiliates and shareholder-directors. Availments under the credit facility are subject to cross suretyship arrangements between the Company, certain of its affiliates and shareholder-directors (see Notes 18.5 and 18.6). The credit lines are also subject to a continuing surety arrangement of the shareholder and Chairman of the Board in his capacity as controlling shareholder of the group. These credit facilities will expire on October 31, 2015. Outstanding balance from these credit lines amounted to P231.4 million and P150.7 million as of December 31, 2014 and 2013, respectively.

21.4 Others

There are other commitments and contingent liabilities that arise in the normal course of the Company's operations that are not reflected in the financial statements. As of December 31, 2014 and 2013, management is of the opinion that losses, if any, from these items will not have a material effect on the Company's financial statements.

22. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company is exposed to a variety of financial risks which resulted from both its operating, investing and financing activities.

The Company's risk exposures are managed in close coordination with the BOD who focuses on actively securing the Company's short to medium-term cash flows by minimizing the exposure to financial markets. Long-term financial investments are managed to generate lasting returns.

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The Company actively engages in the trading of certain financial assets for speculative purposes. The most significant financial risks to which the Company is exposed to are described below and in the succeeding pages.

22.1 Interest Rate Risk

The Company's policy is to minimize interest rate cash flow risk exposures on long-term financing. At December 31, 2014 and 2013, the Company is exposed to changes in market interest rates through its loans payable (see Note 13) and cash in banks, which are subject to variable interest rates.

The United States dollar-denominated cash in banks are tested on a reasonably possible change of +/- 28 basis points (bps) and +/- 60 bps in 2014 and 2013, respectively. The calculations are based on financial instruments held at the end of each reporting period, estimated at 99% level of confidence. On the other hand, Philippine peso-denominated cash in banks and loans payable are tested on a reasonably possible change of +/- 14 in 2014 and +/- 21 in 2013 using standard deviation, estimated at 99% level of confidence. The calculations are based on the Company's financial instruments held at end of each reporting period.

The increase in bps would increase profit before tax by P15.4 million in 2014 and P14.7 million in 2013. Conversely, if the bps would decrease, with all other variables held constant, profit before tax would decrease in 2014 and 2013 by the same amounts.

22.2 Credit Risk

Credit risk is the risk that a counterparty fails to discharge an obligation to the Company. The Company 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 Company continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporate this information into its credit risk controls. The Company'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 financial statements as shown below.

	Notes		**2014**		2013
Cash in banks		**P**	**338,132,143**	P	48,102,505
Trade and other receivables	4		**100,204,779**		84,891,879
Advances to related parties	18.2		**-**		740,550,680
		P	**438,336,922**	P	873,545,064

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

(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 Company'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 Advances to Related Parties

In respect of trade and other receivables and advances to related parties, the Company is not exposed to any significant credit risk exposure to any single counterparty. Based on historical information about the counterparty default rates, management consider the credit quality of the receivable that are not past due or impaired to be good.

22.3 Price Risk

The Company's market price risk arises from its investments carried at fair value classified as financial assets at FVTPL and AFS financial assets. The Company manages exposures to price risk by monitoring the changes in the market price of the investments.

The sensitivity analysis of the observed volatility rates of the fair values of the Company's investments held at fair value assumes a +/-20.13% and +/-18.12% change in the observed volatility rates of financial assets at FVTPL for the years ended December 31, 2014 and 2013, respectively. These percentages have been determined using standard deviation based on the average market volatility in stock prices in the 12 months prior to the reporting dates.

If the stock prices of financial assets at FVTPL increased by 20.13% and 18.12% at December 31, 2014 and 2013, respectively, the Company's net profit would have been higher by P5.9 million in 2014 and P9.4 million in 2013. On the other hand, if the stock prices declined by the same percentages, with all other variables held constant, net profit in 2014 and 2013 would have the reverse impact for the same amounts. The Company's management believes that changes in the stock prices of the AFS financial assets will not have a significant impact on the Company's operations.

22.4 Liquidity Risk

The Company 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.

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The Company 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, 2014, the Company's financial liabilities have contractual maturities as follows:

	Within 6 Months	6 to 12 Months	More than 1 year
Trade and other payables	P 422,581,300	P -	P -
Advances from related parties	699,192,601	-	-
Loans payable	187,902,083	128,744,097	1,260,526,753
	P 1,309,675,984	**P 128,744,097**	**P 1,260,526,753**

This compares to the maturity of the Company's financial liabilities as of December 31, 2013 as follows:

	Within 6 Months	6 to 12 Months	More than 1 year
Trade and other payables	P 184,490,433	P -	P -
Advances from related parties	443,635,421	-	-
Loans payable	798,317,174	17,285,651	1,971,133,750
	P 1,426,443,028	P 17,285,651	P 1,971,133,750

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

23. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Company's capital management objectives are to ensure the Company'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 Company monitors capital on the basis of the carrying amount of equity as presented on the statements of financial position.

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

	2014	2013
Liabilities	**P 2,849,419,608**	P 3,051,712,196
Equity	**577,974,968**	504,517,040
Debt-to-equity ratio	**4.93 : 1.00**	6.05 : 1.00

Approved by:

Name:
Date:

24. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

24.1 Carrying Amounts and Fair Values of Financial Assets and Financial Liabilities

The carrying amounts and fair values of the categories of financial assets and financial liabilities presented in the statements of financial position are shown below.

	Notes	2014 Carrying Values	2014 Fair Values	2013 Carrying Values	2013 Fair Values
Financial Assets					
Loans and receivables:					
Cash in banks		**P 338,132,143**	**P 338,132,143**	P 48,102,505	P 48,102,505
Trade and other receivables	4	**100,204,779**	**100,204,779**	84,891,879	84,891,879
Advances to related parties	18	**-**	**-**	740,550,680	740,550,680
		438,336,922	**438,336,922**	873,545,064	873,545,064
Financial assets at FVTPL –					
Equity securities		**29,259,715**	**29,259,715**	51,916,950	51,916,950
AFS financial assets –					
Equity securities	7	**124,488**	**124,488**	-	-
HTM investments –					
Debt securities	7	**250,000,000**	**252,000,000**	-	-
		P 717,721,125	**P 719,721,125**	P 925,462,014	P 925,462,014
Financial Liabilities					
Financial liabilities at amortized cost:					
Trade and other payables	12	**P 422,581,300**	**P 422,581,300**	P 184,490,433	P 184,490,433
Advances from related parties	18	**699,192,601**	**699,192,601**	443,635,421	443,635,421
Loans payable	13	**1,425,000,000**	**1,425,000,000**	2,403,000,000	2,403,000,000
		P 2,546,773,901	**P 2,546,773,901**	P 3,031,125,854	P 3,031,125,854

See Notes 2.3 and 2.9 for description of the accounting policies for each category of financial instrument including the determination of fair values. A description of the Company's risk management objectives and policies for financial instruments is provided in Note 22.

24.2 Offsetting of Financial Assets and Financial Liabilities

In 2014, the Company entered into a netting arrangement with its related parties. For financial assets and financial liabilities subject to enforceable master netting agreements or similar arrangements, each agreement between the Company and counterparties (i.e., related parties) allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and liabilities will be settled on a gross basis; however, each party to the netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

In 2014, the Company set-off its advances to related parties amounting to P414.3 million against the advances obtained from its shareholder and Chairman of the Board (see Note 18).

Also, in case of the Company's default on loans payment, cash in bank as of December 31, 2014 amounting to P338.1 million, can be applied against its outstanding loans and borrowings amounting to P1.4 billion.

Approved by:

Name:
Date:

25. FAIR VALUE MEASUREMENT AND DISCLOSURES

25.1 Fair Value Hierarchy

In accordance with PFRS 13, 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. The fair value hierarchy has the following levels:

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

b) Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,

c) Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or 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 Company 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.

25.2 Financial Instruments Measurement at Fair Value

The table below shows the fair value hierarchy of the Company's classes of financial assets and financial liabilities measured at fair value in the statements of financial position on a recurring basis as of December 31, 2014 and 2013.

	2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets:				
Equity securities:				
Financial assets at FVTPL	P 29,259,715	P -	P -	P 29,259,715
AFS financial asset	124,488	-	-	124,488
	P 29,384,203	**P -**	**P -**	**P 29,384,203**

Approved by:

Name:
Date:

	2013			
	Level 1	Level 2	Level 3	Total
Financial asset:				
Equity security –				
Financial assets at FVTPL	P 51,916,950	P -	P -	P 51,916,950

As of December 31, 2014 and 2013, instruments included in Level 1 comprise equity securities classified as financial assets at FVTPL or AFS financial asset. These securities were valued based on their market prices quoted in the PSE at the end of each reporting period.

The Company has no financial liabilities measured at fair value as at December 31, 2014 and 2013. There were neither transfers between Levels 1 and 2 instruments in both years.

25.3 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed

The table below summarizes the fair value hierarchy of the Company's financial assets and financial liabilities which are not measured at fair value in the 2014 and 2013 statements of financial position but for which fair value is disclosed.

	2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets:				
Cash in banks	P 338,132,143	P -	P -	P 338,132,143
Trade and other receivables	-	-	100,204,779	100,204,779
Equity security –				
HTM investment	252,000,000	-	-	252,000,000
	P 590,132,143	**P -**	**P 100,204,779**	**P 690,336,922**
Financial liabilities:				
Trade and other payables	P -	P -	P 422,581,300	P 422,581,300
Advances from related parties	-	-	699,192,601	699,192,601
Loans payable	1,425,000,000	-	-	1,425,000,000
	P 1,425,000,000	**P -**	**P 1,121,773,901**	**P 2,546,773,901**

	2013			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash and cash equivalents	P 48,102,505	P -	P -	P 48,102,505
Trade and other receivables	-	-	84,891,879	84,891,879
Advances to related parties	-	-	740,550,680	740,550,680
	P 48,102,505	P -	P 825,442,559	P 873,545,064

Approved by:

Name:
Date:

	2013			
	Level 1	Level 2	Level 3	Total
Financial liabilities:				
Trade and other payables	P -	P -	P 184,490,433	P 184,490,433
Advances from related parties	-	-	443,635,421	443,635,421
Loans payable	2,403,000,000	-	-	2,403,000,000
	P 2,403,000,000	P -	P 628,125,854	P 3,031,125,854

For financial assets and financial liabilities, other than HTM investment, with fair values included in Level 1, management considers that the carrying amounts of those short-term financial instruments approximate their fair values. HTM investment consists of equity securities with fair value determined based on prices quoted in PSE representing the bid prices at the end of the reporting period.

25.4 Fair Value Measurement for Non-financial Assets

For the fair value measurement of non-financial asset, the fair market values of investment properties as of December 31, 2014 and 2013 classified as Level 2 which are determined through appraisal reports amounted to P2.9 billion (see Note 11).

26. SEGMENT REPORTING

26.1 Business Segments

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

26.2 Analysis of Segment Information

The following tables present revenue and profit information regarding business segments of the Company for the years ended December 31, 2014, 2013 and 2012:

	2014			
	Sale of Goods	**Rental Income**	**Investment Income**	**Total**
Revenues	P 933,080,958	P 73,179,541	P 6,134,247	P1,012,394,746
Cost	668,512,426	2,973,346	-	671,485,772
	264,568,532	70,206,195	6,134,247	340,908,974
Other operating expenses:				
Salaries and wages	16,098,594	-	-	16,098,594
Outside services	7,384,434	-	-	7,384,434
Transportation and travel	3,718,155	-	-	3,718,155
Commission	1,980,024	-	-	1,980,024
Insurance	1,428,143	-	-	1,428,143
Advertising and promotions	388,675	-	-	388,675
	30,998,025	-	-	30,998,025
Segment profit before depreciation and amortization	**P 233,570,507**	**P 70,206,195**	**P 6,134,247**	**P 309,910,949**

Approved by:

Name:
Date:

Below is the Company's reconciliation of the components of reportable segments to the 2014 statement of comprehensive income:

Revenues:	
Total revenues of reportable segments	P1,012,394,746
Costs and expenses:	
Total costs and expenses of reportable segments	705,276,641
Other costs and expenses from non-reportable segments	57,740,126
Depreciation and amortization	6,746,374
	763,723,530
Finance costs – net	96,754,334
Profit before tax	**P 145,877,271**

	2013			
	Sale of Goods	Rental Income	Investment Income	Total
Revenues	P 785,947,148	P 58,851,389	P 9,139,704	P 853,938,241
Cost	580,231,614	2,786,400	-	583,018,014
	205,715,534	56,064,989	9,139,704	270,920,227
Other operating expenses:				
Salaries and wages	15,982,597	-	-	15,982,597
Outside services	7,739,340	-	-	7,739,340
Transportation and travel	12,636,618	-	-	12,636,618
Commission	3,095,467	-	-	3,095,467
Insurance	8,517,985	-	-	8,517,985
Advertising and promotions	371,618	-	-	371,618
	48,343,625	-	-	48,343,625
Segment profit before depreciation and amortization	P 157,371,909	P 56,064,989	P 9,139,704	P 222,576,602

Below is the Company's reconciliation of the components of reportable segments to the 2013 statement of comprehensive income:

Revenues:	
Total revenues of reportable segments	P 853,938,241
Costs and expenses:	
Total costs and expenses of reportable segments	631,361,639
Other costs and expenses from non-reportable segments	41,218,693
Depreciation and amortization	6,409,048
	678,989,380
Finance costs – net	105,421,659
Profit before tax	P 69,527,202

Approved by:

Name:
Date:

	2012			
	Sale of Goods	Rental Income	Investment Income	Total
Revenues	P 993,927,489	P 10,958,429	P -	P 1,004,885,918
Cost	790,727,290	2,786,400	-	793,513,690
	203,200,199	8,172,029	-	211,372,228
Expenses:				
Salaries and wages	11,754,910	-	-	11,754,910
Outside services	4,862,212	-	-	4,862,212
Transportation and travel	8,671,752	-	-	8,671,752
Commission	2,800,582	-	-	2,800,582
Insurance	5,728,722	-	-	5,728,722
Advertising and promotions	266,769	-	-	266,769
	34,084,947	-	-	34,084,947
Segment profit before depreciation and amortization	P 169,115,252	P 8,172,029	P -	P 177,287,281

Below is the Company's reconciliation of the components of reportable segments to the 2012 statement of comprehensive income:

Revenues:	
Total revenues of reportable segments	P 1,004,885,918
Costs and expenses:	
Total costs and expenses of reportable segments	827,598,637
Other costs and expenses from non-reportable segments	19,288,917
Depreciation and amortization	5,361,123
	852,248,677
Finance costs – net	95,259,122
Profit before tax	P 57,378,119

The results of operations from the three segments are used by management to analyze the Company'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 Company's operation.

Expenses are allocated through direct association of costs and expenses to operating segments.

27. SUPPLEMENTARY INFORMATION REQUIRED BY THE BIR

Presented in the succeeding pages is the supplementary information which is required by the BIR under its existing revenue regulations to be disclosed as part of the notes to the financial statements. This supplementary information is not a required disclosure under PFRS.

Approved by:

Name:
Date:

27.1 Requirements Under Revenue Regulations (RR) 15-2010

The information on taxes, duties and license fees paid or accrued during the taxable year required under RR 15-2010 are presented in the following pages:

(a) Output VAT

In 2014, the Company declared output VAT as follows:

	Amount	Output VAT
Sale of goods:		
Exempt	P 259,063,984	P -
Zero-rated	71,202,941	-
VATable	602,814,033	72,337,684
	933,080,958	72,337,684
Rental income	73,179,541	8,781,545
	P 1,006,260,499	P 81,119,229

The Company's zero-rated and exempt sales and VAT receipts were determined pursuant to Section 106(A)(2)(a), *Zero-rated VAT on Export Sale of Goods*, Section 109, *VAT Exempt Transactions*, and Section 108(B) and *Zero-rated VAT on Sale of Services and Use or Lease of Properties*, of the 1997 National Internal Revenue Code, as amended. The tax bases are presented as part of Sale of Goods and Other Operating Income in the 2014 statement of comprehensive income.

(b) Input VAT

The movements in input VAT in 2014 are summarized below.

Balance at beginning of year	P 148,876,144
Importation of goods other than capital goods	72,667,744
Domestic purchases of goods and services other than capital goods	3,805,892
Amortization of deferred input VAT	7,507,764
	232,857,544
Applied against output VAT	(81,119,229)
Balance at end of year	P 151,738,315

The outstanding balance of input VAT is presented as part of Prepayments and Other Current Assets in the 2014 statement of financial position (see Note 9).

Approved by:

Name:
Date:

(c) Taxes on Importation

In 2014, the total landed cost of the Company's importation of raw materials amounted to P704,897,004 which includes customs duties, freight, insurance and other charges, excise tax and other import expenses amounting to P6,103,328.

(d) Excise Tax

Aside from the excise tax on importation, the Company did not have any transactions in 2014 which are subject to excise tax.

(e) Documentary Stamp Taxes (DST)

The Company incurred DST amounting to P4,808,471 in 2014 [see Note 27.1(f)] for the execution of new and renewal of the Company's various loan agreements with financial institutions.

(f) Taxes and Licenses

The details of Taxes and licenses in 2014 is broken down as follows:

	Note		
DST	27.1(e)	P	4,808,471
Real property tax			2,973,346
Licenses and permits			2,238,345
Others			26,554
		P	10,046,716

The amounts of Taxes and licenses is presented under Other Operating Expenses in the 2014 statement of comprehensive income (see Note 14).

(g) Withholding Taxes

The details of withholding taxes for the year ended December 31, 2014 are shown below.

Expanded	P	7,692,783
Compensation		526,363
	P	8,219,146

The Company does not have any transactions subject to final withholding tax.

Approved by:

Name:
Date:

(b) Deficiency Tax Assessment and Tax Cases

As of December 31, 2014, the Company does not have any final deficiency tax assessment with the BIR nor does it have tax cases outstanding or pending in courts or bodies outside the BIR in any of the open taxable years.

27.2 Requirements Under RR 19-2011

RR 19-2011 requires schedules of taxable revenues and other non-operating income, deductible costs of sales, and itemized deductions, to be disclosed in the notes to the financial statements.

The amounts of taxable revenues and income, and deductible costs and expenses presented below are based on relevant tax regulations issued by the BIR; hence, may not be the same as the amounts reflected in the 2014 statement of comprehensive income.

(a) Taxable Revenues

The Company's taxable revenues subject to regular rate in taxable year 2014 amounted to P933,080,958.

(b) Deductible Cost of Sales

The Company's deductible cost of sales subject to regular tax rate in taxable year 2014 amounted to P668,512,426.

(c) Taxable Non-operating and Other Income

The details of taxable non-operating and other income in 2014 which are subject to regular tax rate are shown below.

Rentals	P 73,727,801
Realized foreign currency gains	2,829,766
	P 76,557,567

Approved by:

Name:
Date:

(d) Itemized Deductions

The amounts of itemized deductions subject to regular tax rate for the year ended December 31, 2014 are as follows:

Interest expense	P	95,014,204
Management and consultancy		32,529,437
Salaries and wages		15,931,621
Taxes and licenses		9,529,441
Depreciation and amortization		6,746,374
Security services		5,179,381
Repairs and maintenance		4,749,183
Representation and entertainment		3,944,334
Trainings and seminar		2,514,764
Communication, light and water		2,477,280
Fuel and oil		2,311,304
Janitorial and messengerial services		2,205,053
Commission		1,980,024
Insurance		1,428,143
Transportation and travel		1,406,851
Rental		1,096,473
Dues and subscriptions		1,094,211
Bank charges		1,082,026
Office supplies		900,153
Professional fees		699,450
Advertising and promotions		388,675
Charitable contributions		310,000
Others		2,283,107
	P	195,801,489

Punongbayan & Araullo

An instinct for growth™

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

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1200 Makati City
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The Board of Directors
SBS Philippines Corporation
(Formerly Sytengco Philippines Corporation)
(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 financial statements of SBS Philippines Corporation for the year ended December 31, 2014, on which we have rendered our report dated March 5, 2015. Our audit was made for the purpose of forming an opinion on the 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 Securities Regulation Code Rule 68, and is not a required part of the 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 basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PUNONGBAYAN & ARAULLO

By: Renan A. Piamonte
Partner

CPA Reg. No. 0107805
TIN 221-843-037
PTR No. 4748316, January 5, 2015, Makati City
SEC Group A Accreditation
Partner - No. 1363-A (until Nov. 11, 2016)
Firm - No. 0002-FR-3 (until Mar. 31, 2015)
BIR AN 08-002511-37-2013 (until Oct. 7, 2016)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2015)

March 5, 2015

SBS PHILIPPINES CORPORATION
List of Supplementary Information
December 31, 2014

A. Statement of Management's Responsibility for the Financial Statements

B. Independent Auditors' Report on the SEC Supplementary Schedules Filed Separately from the Basic Financial Statements

C. Schedule of Financial Indicators for December 31, 2014 and 2013

D. List of Supplementary Information

Supplementary Schedules to Financial Statements (Form 17-A, Item 7)

* These schedules and supplementary information are not included as these are not applicable to the Company.

SBS PHILIPPINES CORPORATION
Schedule of Financial Indicators for December 31, 2014 and 2013

	2014	2013	2012
Liquidity Ratio [1]	129.4%	175.9%	256.4%
Debt to Equity Ratio [2]	493.0%	604.9%	577.9%
Asset to Equity Ratio [3]	593.0%	704.9%	677.9%
Return on Assets [4]	2.9%	1.8%	1.4%
Return on Equity [5]	18.5%	12.7%	9.3%
Cost to Income Ratio [6]	19.0%	23.1%	15.6%
Earnings per Share [7]	PHP 1.80	PHP 2.74	PHP 1.80

1/ *Current Assets over Current Liabilities*

2/ *Total Liabilities over Equity*

3/ *Total Assets over Equity*

4/ *Net Income over Average Assets*

5/ *Net Income over Average Equity*

6/ *Cost and Expenses over Revenues*

7/ *Net Income over Weighted Average Number of Common Outstanding Shares*

SBS PHILIPPINES CORPORATION

SEC Released Amended SRC Rule 68

Annex 68-E

Schedule A

Financial Assets

Name of issuing entity and association of each issue	Number of shares	Amount shown in the balance sheet		Income received and accrued
Eastwest Bank - Financial assets at FVTPL	1,221,700	P	29,259,715	n / a
Philex Petroleum Corporation - AFS financial assets	24,700		124,488	n / a
Ayala Corporation (Preferred) - HTM investments	500,000		250,000,000	n / a
	1,746,400	**P**	**279,384,203**	

SBS PHILIPPINES CORPORATION

SEC Released Amended SRC Rule 68

Annex 68-E

Schedule B

Amounts Receivable from Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Related Parties)

Name and Designation of debtor	Balance at beginning of period	Additions	Deductions		Ending Balance		
			Amounts collected	Amounts assigned or set - off	Current	Non-current	Balance at end of period
Joune Capital Holdings Corporation	P 130,048,279	P 58,159,020	P 182,606,304	P 5,600,995	P -	P -	P -
Euson Realty & Development Corp.	25,449,265	-	25,449,265	-	-	-	-
Sytengco Enterprise Corporation	72,425,887	4,699,715	-	77,125,602	-	-	-
Asida Holdings Corporation	-	5,000	-	5,000	-	-	-
Aneco Industries Corporation	-	2,503,637	-	2,503,637	-	-	-
Berny Realty and Development Corp	-	685,495	-	685,495	-	-	-
SBS Merchandising	-	51,442,897	-	51,442,897	-	-	-
Tanlok Corporation	-	44,950	-	44,950	-	-	-
	P 227,923,431	**P 117,540,714**	**P 208,055,569**	**P 137,408,576**	**P -**	**P -**	**P -**

SBS PHILIPPINES CORPORATION

SEC Released Amended SRC Rule 68

Annex 68-E

Schedule C

Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements

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

NOTHING TO REPORT

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

Description	Beginning Balance	Additions at cost	Deductions: Charged to cost and expenses	Deductions: Charged to other accounts	Other changes additions (deductions)	Ending Balance
Input Value-Added Tax	P 148,876,144	P 83,981,400	P -	P -	(P 81,119,229)	P 151,738,315
Prepaid Expenses	1,789,366	2,225,477	(1,634,196)	(110,293)	-	2,270,354
Creditable withholding tax	1,298,156	7,580,988	-	-	(8,879,144)	-
	P 151,963,666	**P 93,787,864**	**(P 1,634,196)**	**(P 110,293)**	**(P 89,998,373)**	**P 154,008,669**

SBS PHILIPPINES CORPORATION

SEC Released Amended SRC Rule 68

Annex 68-E

Schedule E

Long Term Debt

Title of Issue and type of obligation	Amount authorized by indenture	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption "Long-Term Debt" in related balance sheet
Term Loan	**P 1,200,000,000**	**P 111,500,000**	**P 1,163,500,000**

SBS PHILIPPINES CORPORATION

SEC Released Amended SRC Rule 68

Annex 68-E

Schedule F

Indebtedness to Related Parties (Long-Term Loans from Related Companies)

Name of related party	Balance at beginning of period	Balance at end of period

NOTHING TO REPORT

SBS PHILIPPINES CORPORATION

SEC Released Amended SRC Rule 68

Annex 68-E

Schedule G

Guarantees of Securities of Other Issuers

Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owned by person for which statement is filed	Nature of guarantee

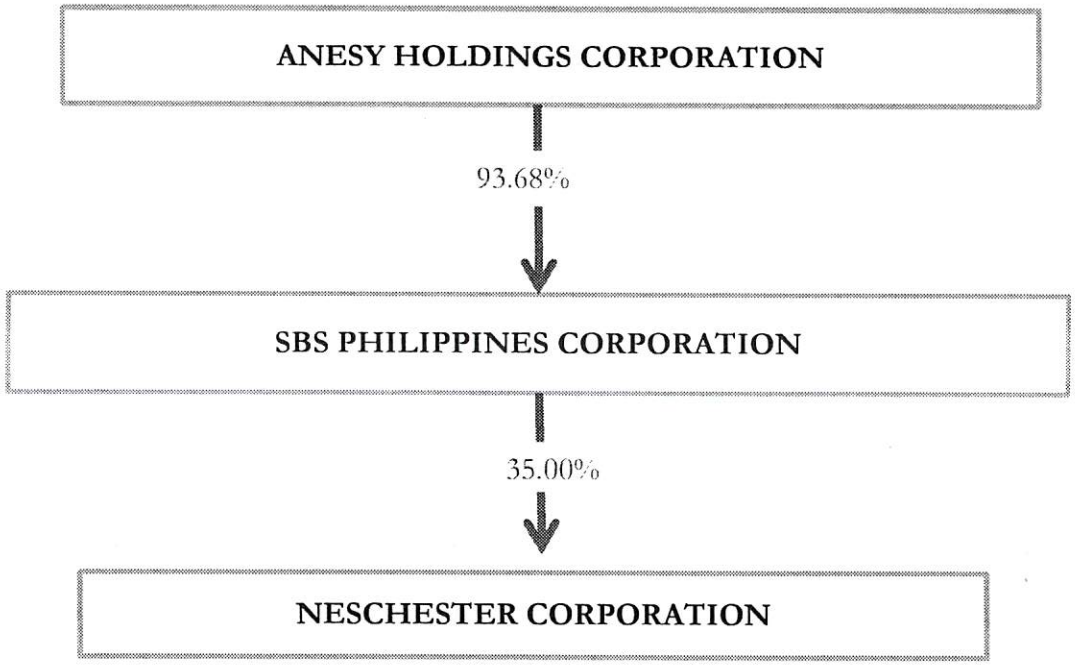
NOTHING TO REPORT

SBS PHILIPPINES CORPORATION
SEC Released Amended SRC Rule 68
Annex 68-E
Schedule H
Capital Stock

Title of Issue	Number of shares authorized	Number of shares issued and outstanding as shown under related balance sheet caption	Number of shares reserved for options, warrants, converstion and other rights	Number of shares held by related parties	Directors, officers and employees	Others
Common Shares						
Class A Shares	**1,550,000,000**	**427,000,000**	-	**400,000,000**	**26,729,900**	**270,100**

SBS PHILIPPINES CORPORATION

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



SBS PHILIPPINES CORPORATION
(Formerly Sytengco Philippines Corporation)
(A Subsidiary of Anesy Holdings Corporation)

Schedule of Philippine Financial Reporting Standards and Interpretations Adopted by the Securities and Exchange Commission and the Financial Reporting Standards Council as of December 31, 2014

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements		✓		
Conceptual Framework Phase A: Objectives and Qualitative Characteristics		✓		
Practice Statement Management Commentary			✓	
Philippine Financial Reporting Standards (PFRS)				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters	✓		
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters	✓		
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters	✓		
	Amendment to PFRS 1: Government Loans	✓		
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
PFRS 3 (Revised)	Business Combinations			✓
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures – Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	✓		
	Amendment to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures *(effective when PFRS 9 is first applied)*			✓
PFRS 8	Operating Segments			✓
PFRS 9	Financial Instruments* *(effective January 1, 2018)*			✓
PFRS 10	Consolidated Financial Statements			✓
	Amendment to PFRS 10: Transition Guidance			✓
	Amendment to PFRS 10: Investment Entities			✓
	Amendment to PFRS 10: Investment Entities – Applying the Consolidation Exception * *(effective January 1, 2016)*			✓
PFRS 11	Joint Arrangements			✓
	Amendment to PFRS 11: Transition Guidance			✓
PFRS 12	Disclosure of Interests in Other Entities			✓
	Amendment to PFRS 12: Transition Guidance			✓
	Amendment to PFRS 12: Investment Entities			✓
	Amendment to PFRS 10: Investment Entities – Applying the Consolidation Exception * *(effective January 1, 2016)*			✓
PFRS 13	Fair Value Measurement	✓		
PFRS 14	Regulatory Deferral Accounts* *(effective January 1, 2018)*			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
Philippine Accounting Standards (PAS)				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendment to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendment to PAS 1: Disclosure Initiative * *(effective January 1, 2016)*			✓
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
PAS 16	Property, Plant and Equipment	✓		
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Revised)	Employee Benefits	✓		
	Amendment to PAS 19: Defined Benefit Plans - Employee Contributions * *(effective July 1, 2014)*	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation	✓		
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Revised)	Separate Financial Statements			✓
	Amendment to PAS 27: Investment Entities			✓
PAS 28 (Revised)	Investments in Associates and Joint Ventures	✓		
	Amendment to PAS 28: Investment Entities - Applying the Consolidation Exception	✓		
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendment to PAS 32: Classification of Rights Issues	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
PAS 33	Earnings per Share			✓
PAS 34	Interim Financial Reporting			✓
PAS 36	Impairment of Assets	✓		
	Amendment to PAS 36: Recoverable Amount Disclosures for Non-financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions	✓		
	Amendments to PAS 39: The Fair Value Option	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC 9 and PAS 39: Embedded Derivatives	✓		
	Amendment to PAS 39: Eligible Hedged Items	✓		
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting	✓		
PAS 40	Investment Property	✓		
PAS 41	Agriculture			✓
Philippine Interpretations - International Financial Reporting Interpretations Committee (IFRIC)				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities**	✓		
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds**	✓		
IFRIC 6	Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies			✓
IFRIC 9	Reassessment of Embedded Derivatives**	✓		
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives**	✓		
IFRIC 10	Interim Financial Reporting and Impairment			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement and their Interaction**	✓		
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners**	✓		
IFRIC 18	Transfers of Assets from Customers**	✓		
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments**	✓		
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine**	✓		
IFRIC 21	Levies	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
Philippine Interpretations - Standing Interpretations Committee (SIC)				
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✓
SIC-15	Operating Leases - Incentives	✓		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders**	✓		
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓

* These standards will be effective for periods subsequent to 2014 and are not early adopted by the Company.

** These standards have been adopted in the preparation of financial statements but the Company has no significant transactions covered in both years presented.

SBS PHILIPPINES CORPORATION
(Formerly Sytengco 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
For the Year Ended December 31, 2014
(Amounts in Philippine Pesos)

Unappropriated Retained Earnings at Beginning of Year		P 7,697,447
Prior Year's Outstanding Reconciling Items		
Deferred tax income		(16,446,709)
Unappropriated Retained Earnings Available for Dividend Declaration at Beginning of Year, as Adjusted		(8,749,262)
Net Profit Realized During the Year		
Net profit per audited financial statements	P 100,172,187	
Non-actual/unrealized income		
Deferred tax income	(1,287,475)	98,884,712
Add (Less):		
Reversal of appropriation during the year	275,000,000	
Dividend declarations during the period	(265,494,338)	9,505,662
Unappropriated Retained Earnings Available for Dividend Declaration at End of Year		**P 99,641,112**