



November 14, 2019

PHILIPPINE STOCK EXCHANGE

9th Floor, Philippine Stock Exchange Tower
28th Street corner 5th Avenue
BGC Taguig City

Attention: Ms. Janet A. Encarnacion
Head - Disclosure Department

Subject: AllHome Corp.: **SEC Form 17-Q**

Gentlemen:

Please see attached **SEC form 17-Q for the nine months ended September 30, 2019.**

Thank you.

Very truly yours,


Frances Rosalie T. Coloma
Chief Financial Officer

COVER SHEET

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S.E.C. Registration Number										

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(Company's Full Name)

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

Frances Rosalie T. Coloma

Contact Person

8880-1199

Company Telephone Number

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Day

Calendar Year

17-Q

FORM TYPE

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Month

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Day

Annual Meeting

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Secondary License Type, If
Applicable

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Dept. Requiring this Doc.

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Amended Articles
Number/Section

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Total No. of Stockholders

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Domestic

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Foreign

Total Amount of Borrowings

To be accomplished by SEC Personnel concerned

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE
SECURITIES REGULATION CODE AND SRC RULE 17(2)(B) THEREUNDER

1. For the quarter ended **September 30, 2019**

2. SEC Identification Number **CS-201310179**

3. BIR Tax Identification No. **008-541-952**

4. **AllHome Corp.**

Exact name of the registrant as specified in its charter

5. **Philippines**

Province, country or other jurisdiction of incorporation

6. Industry Classification Code

(SEC Use Only)

7. **LGF Bldg B, EVIA Lifestyle Center, Daanghari, Almanza Dos, Las Piñas City**

Address of Principal Office

1747
Postal Code

8. **(632) 8880-1199**

Registrant's telephone number, including area code

9. **N/A**

Former name, former address and former fiscal year, if change since last report.

10. Securities registered pursuant to Sections 4 and 8 of the RSA

Title of each Class

Common stock (as of 09/30/2019 net of nil treasury shares)

Number of Shares of Common Stock
Outstanding and Amount of Debt
Outstanding

3,750,000,002

11. Are any of the registrant's securities listed on the Philippine Stock Exchange?

Yes ☒ [x]

No ☐ []

12. Check whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Section 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period of the registrant was required to file such reports.)

Yes ☒ [x]

No ☐ []

(b) has been subject to such filing requirements for the past 90 days.

Yes ☒ [x]

No ☐ []

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AllHome Corp.
Statements of Financial Position
As of September 30, 2019 and December 31, 2018
(Amounts in Philippine Peso)

	Unaudited Sept 30, 2019	Audited Dec 31, 2018
ASSETS		
Current Assets		
Cash (Note 5)	₱257,062,271	₱298,492,381
Trade and other receivables - net (Note 6)	188,992,524	1,196,386,397
Inventories (Note 7)	4,775,489,179	2,690,897,676
Due from related parties (Note 18)	—	133,913,000
Other current assets (Note 8)	685,325,416	654,112,912
Total Current Assets	5,906,869,390	4,973,802,366
Non-current Assets		
Property and equipment - net (Note 9)	9,359,028,092	2,969,459,786
Other non-current assets (Note 8)	440,682,235	272,168,819
Total Non-current Assets	9,799,710,327	3,241,628,605
TOTAL ASSETS	15,706,579,717	8,215,430,971
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Note 10)	1,403,011,297	379,871,290
Loans payable (Note 11)	3,485,915,385	1,676,923,077
Lease liability (Note 12)	330,575,610	—
Due to related parties (Note 18)	—	627,352,292
Income tax payable	103,500,571	68,189,020
Total Current Liabilities	5,323,002,863	2,752,335,679
Non-current Liabilities		
Loans payable (Note 11)	1,992,307,692	2,638,461,538
Lease liability (Note 12)	4,048,908,653	—
Deferred tax liabilities - net (Note 17)	129,756,383	146,029,890
Retirement benefit obligation (Note 16)	30,641,568	—
Total Non-current Liabilities	6,201,614,296	2,784,491,428
Total liabilities	11,524,617,159	5,536,827,107
Equity		
Capital stock (Note 19)	3,000,000,000	2,000,000,000
Retained earnings	1,181,962,558	678,603,864
Total Equity	4,181,962,558	2,678,603,864
TOTAL LIABILITIES AND EQUITY	₱15,706,579,717	₱8,215,430,971

See accompanying Notes to Financial Statements.



AllHome Corp.
Statements of Comprehensive Income
For the nine months ended September 30, 2019 and 2018
(Amounts in Philippine Peso)

	Unaudited Jul-Sep Q3-2019	Unaudited Jan-Sep 2019	Unaudited Jul-Sep Q3-2018	Unaudited Jan-Sep 2018
REVENUES (Note 13)	₱3,128,292,571	₱8,183,487,442	₱1,741,877,892	₱4,769,971,686
COSTS OF GOODS SOLD (Note 14)	2,186,749,184	5,750,156,048	1,221,056,402	3,369,934,215
GROSS PROFIT	941,543,387	2,433,331,394	520,821,490	1,400,037,471
OTHER OPERATING EXPENSES (Note 14)	(468,886,743)	(1,302,608,425)	(398,039,570)	(1,137,700,039)
OPERATING PROFIT	472,656,644	1,130,722,969	122,781,920	262,337,432
OTHER INCOME (CHARGES)				
Finance charges (Note 15)	(139,795,477)	(317,580,556)	(17,357,986)	(44,460,105)
Other income (Note 15)	112,613,007	253,405,764	64,775,175	109,855,759
Finance income (Note 5)	72,145	248,619	89,191	286,494
	(27,110,325)	(63,926,173)	47,506,380	65,682,148
PROFIT BEFORE INCOME TAX	445,546,319	1,066,796,796	170,288,300	328,019,580
PROVISION FOR INCOME TAX (Note 17)	(133,663,895)	(320,606,508)	(51,055,103)	(98,358,382)
NET PROFIT	311,882,424	746,190,288	119,233,197	229,661,198
OTHER COMPREHENSIVE INCOME	—	—	—	—
TOTAL COMPREHENSIVE INCOME	₱311,882,424	₱746,190,288	₱119,233,197	₱229,661,198
Basic and Diluted earnings per share	0.14	0.32	8.90	17.14

See accompanying Notes to Financial Statements.

	Unaudited Sept 30, 2019	Unaudited Sep 30, 2018
CAPITAL STOCK (Note 19)	₱3,000,000,000	₱1,340,000,000
RETAINED EARNINGS		
Balance at beginning of period		
As previously reported	678,603,864	167,196,870
Effect of adoption of PFRS 16 as restated(Note 2)	(217,261,244)	—
As restated	461,342,620	167,196,870
Net profit for the period	746,190,288	229,661,198
Dividends declared (Note 19)	(25,570,350)	—
Balance at end of period	1,181,962,558	396,858,068
TOTAL EQUITY	₱4,181,962,558	₱1,736,858,068



AllHome Corp.
Statements of Cash Flows
For the nine months ended September 30, 2019 and 2018
(Amounts in Philippine Peso)

	Unaudited Jul to Sept 3Q-2019	Unaudited Jan to Sept 2019	Unaudited Jul to Sept 3Q-2018	Unaudited Jan to Sept 2018
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax	₱445,546,319	₱1,066,796,796	₱170,288,300	₱328,019,580
Adjustments for:				
Depreciation (Note 9)	168,086,803	466,840,112	44,733,131	123,656,661
Interest expense (Note 11, 12, 15)	139,562,686	317,347,765	17,357,986	44,460,105
Interest income (Note 5)	(72,145)	(248,619)	(89,191)	(286,494)
Operating profit before working capital changes	753,123,663	1,850,736,054	232,290,226	495,849,852
Decrease/(Increase) in trade and other receivables	497,327,369	1,007,393,873	(195,859,290)	(218,186,205)
Increase in merchandise inventories	(480,179,052)	(2,084,591,503)	(660,272,008)	(1,088,096,294)
Decrease/(Increase) in due from related parties	—	1,005,305,716	381,576,450	(8,000,000)
Decrease in other current assets	(400,195,738)	(65,707,038)	(175,247,074)	(311,584,426)
(Increase)/Decrease in other current assets	(37,053,146)	(168,513,416)	(40,459,461)	78,068,145
Increase in trade and other payables	653,518,318	1,026,392,477	136,737,288	835,287,059
(Decrease)/Increase in due to related parties	(3,574,959)	(498,745,008)	289,047,419	408,172,419
Increase in retirement benefit obligation	—	28,566,605	—	—
Cash generated from operations	982,966,455	2,100,837,760	(32,186,450)	191,510,550
Cash paid for income taxes	(45,327,206)	(208,456,502)	(9,401,171)	(38,927,320)
Net cash used in Operating activities	937,639,249	1,892,381,258	(41,587,621)	152,583,230
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to property and equipment (Note 9)	(1,593,644,638)	(2,399,307,526)	(740,576,636)	(1,732,521,038)
Interest received	72,145	248,619	89,191	286,494
Net cash used in Investing activities	(1,593,572,493)	(2,399,058,907)	(740,487,445)	(1,732,234,544)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from availment of loans (Note 11)	1,551,300,000	2,185,300,000	750,000,000	1,600,000,000
Repayment of loans payable (Note 11)	(722,461,538)	(1,022,461,538)	(61,538,461)	(123,076,923)
Payments of principal portion of lease Liability (Note 12)	(77,178,251)	(206,164,643)	—	—
Interest paid for loans payable (Note 11)	(100,484,903)	(270,859,741)	(15,359,896)	(140,133,012)
Interest paid for lease liabilities (Note 12)	(71,481,318)	(194,996,189)	—	—
Dividends paid (Note 19)	—	(25,570,350)	—	—
Net cash from financing activities	579,693,990	465,247,539	673,101,643	1,336,790,065
NET DECREASE IN CASH	(76,239,254)	(41,430,110)	(108,973,423)	(242,861,249)
CASH AT BEGINNING OF PERIOD	333,301,525	298,492,381	265,897,486	399,785,312
CASH AT END OF PERIOD	₱257,062,271	₱257,062,271	₱156,924,063	₱156,924,063

ALLHOME CORP.

NOTES TO FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

AllHome Corp. (the Company) was registered with the Philippine Securities and Exchange Commission (SEC) on May 29, 2013. The Company is primarily engaged in buying, selling, distributing, marketing, at wholesale and retail, of all kinds of goods, commodities, wares and merchandise.

The Company is a wholly owned subsidiary of AllValue Holdings Corp. (AllValue or parent company), which is a subsidiary of Fine Properties Inc. (FPI or the ultimate parent company). AllValue and FPI, both holding companies, are incorporated and domiciled in the Philippines.

The registered office and principal place of business of the Company is located at LGF Bldg B, EVIA Lifestyle Center, Daang Hari, Almanza Dos, Las Piñas City. The registered offices and principal places of business of AllValue and FPI are located at 3rd Level Starmall Las Piñas, CV Starr Avenue, Philamlife Village, Pamplona, Las Piñas City.

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. The policies have been consistently applied to all the periods 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.

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 interim financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Company presents all items of income and expense 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*

The 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. Functional currency is the currency of the primary economic environment in which the Company operates.

2.2 *Adoption of New and Amended PFRS*

(a) *Effective in 2019 that are Relevant to the Company*

The Company adopted for the first time the following PFRS, amendments, interpretation and annual improvements to existing standards, which are mandatorily effective for annual periods beginning on or after January 1, 2019:

PAS 19 (Amendments)	:	Employee Benefits - Plan Amendment, Curtailment or Settlement
PFRS 9 (Amendments)	:	Financial Instruments - Prepayment Features with Negative Compensation
PFRS 16	:	Leases
International Financial Reporting Interpretations Committee (IFRIC) 23	:	Uncertainty over Income Tax Treatments
Annual Improvements to PFRS 2015-2017 Cycle		
PAS 12 (Amendments)	:	Income Taxes - Tax Consequences of Dividends
PAS 23 (Amendments)	:	Borrowing Costs - Eligibility for Capitalization

Further, the Company also adopted for the first time the Republic Act (RA) No. 11232, *An Act Providing for the Revised Corporation Code of the Philippines* (the Revised Corporation Code), which took effect on March 8, 2019.

Discussed below and in the succeeding pages are the relevant information about these pronouncements.

- (i) PAS 19 (Amendments), *Employee Benefits - Plan Amendment, Curtailment or Settlement*
The amendments require the use of updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement when the entity remeasures its net defined benefit liability (asset). Management assessed that the amendments had no significant impact on the Company's financial statements.
- (ii) PFRS 9 (Amendments), *Financial Instruments – Prepayment Features with Negative Compensation*
The amendments clarify that prepayment features with negative compensation attached to financial instruments may still qualify under the “solely payments of principal and interests” (SPPI) test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at fair value through other comprehensive income (FVOCI). Management assessed that the amendments had no significant impact on the Company's financial statements.

(iii) PFRS 16, *Leases*.

The new standard replaced PAS 17, *Leases*, and its related interpretation IFRIC 4, *Determining Whether an Arrangement Contains a Lease*. For lessees, it requires to account for leases “on-balance sheet” by recognizing a “right-of-use” asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the “right-of-use” asset is accounted for similar to a purchased asset subject to depreciation or amortization. The lease liability is accounted for similar to a financial liability which is amortized using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low-value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee’s benefit).

For lessors, lease accounting is similar to PAS 17’s. In particular, the distinction between finance and operating leases is retained. The definitions of each type of lease, and the supporting indicators of a finance lease, are substantially the same as PAS 17’s. The basic accounting mechanics are also similar, but with some different or more explicit guidance in few areas. These include variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

The adoption of PFRS 16 has resulted in changes in the Company’s accounting policies (see Note 2.12). The Company has applied the new standard retrospectively with the cumulative effect of initial application recognized at January 1, 2019, as permitted under the transitional provisions of the standard. The effects of adoption of PFRS 16 are recognized in the opening balance of Retained Earnings in the statement of financial position as at January 1, 2019. Specifically, right-of-use asset is presented as part of Property and Equipment, while Lease Liability is presented in the statement of financial position. In computing its lease liability as at date of initial application, the Company used its incremental borrowing cost of 6.45%.

For leases previously accounted for as operating leases with remaining lease terms of less than 12 months and for leases with low-value assets, the Company has applied the straight-line basis of recognizing lease expense over the remaining lease terms.

The table below shows the effects of the adoption of PFRS 16 in the statement of financial position as of January 1, 2019.

	December 31, 2018	Adjustments	January 1, 2019
Other current assets	₱654,112,912	(₱34,494,533)	₱619,618,379
Property and equipment	2,969,459,786	3,234,861,721	6,204,321,507
Effect on total assets		3,200,367,188	
Lease liability	—	(3,510,740,394)	(3,510,740,394)
Deferred tax liability - net	(146,029,890)	93,111,962	(52,917,928)
Effect on total liabilities		(3,417,628,432)	
Net effect in equity		(₱217,261,244)	

The following is a reconciliation of total operating lease commitments at December 31, 2018 under PAS 17 (as disclosed in the financial statements for December 31, 2018) to the lease liabilities recognized at January 1, 2019 under PFRS 16:

Total operating lease commitments	
at December 31, 2018 before discounting	₱1,743,744,797
Cash flows from reasonably certain extension option	<u>3,157,619,998</u>
Total future minimum lease payments	4,901,364,795
Discount (using incremental borrowing rate)	<u>(1,390,624,402)</u>
 Total lease liabilities recognized under PFRS 16 at January 1, 2019	 <u>₱3,510,740,394</u>

(iv) IFRIC 23, *Uncertainty over Income Tax Treatments*

The interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires the Company to consider the probability of the tax treatment being accepted by the taxation authority. When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, the Company has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above. Management assessed that the interpretation had no significant impact on the Company's financial statements.

(v) Annual Improvements to PFRS 2015-2017 Cycle

Among the improvements, the following amendments are relevant to the Company but had no material impact on the Company's financial statements as these amendments merely clarify existing requirements:

- PAS 12 (Amendments), *Income Taxes - Tax Consequences of Dividends*
The amendments clarify that all income tax consequence of dividend payments should be recognized in profit or loss.
- PAS 23 (Amendments), *Borrowing Costs - Eligibility for Capitalization*
The amendments clarify that any specific borrowing which remains outstanding after the related qualifying asset is ready for its intended purpose, such borrowing will then form part of the entity's general borrowings when calculating the capitalization rate for capitalization purposes.

(vi) RA No. 11232, *An Act Providing for the Revised Corporation Code of the Philippines*

The Revised Corporation Code repeals the Batas Pambansa Bilang 68, *The Corporation Code of the Philippines*. Among the provisions of the Revised Corporation Code, the following would impact the Company's financial statements:

- the Revised Corporation Code removed the 50-year maximum corporate term. Hence, stock corporation may have unlimited life unless otherwise provided in the articles of incorporation; and
- the Revised Corporation Code removed the subscription requirement of 25% of authorized capital stock and paid-up capital requirement of 25% of subscribed capital stock.

(b) *Effective in 2019 that are not Relevant to the Company*

The following amendments and improvements to existing standards are mandatorily effective for annual periods beginning on or after January 1, 2019 but are not relevant to the Company's financial statements:

PAS 28 (Amendments)	:	Investment in Associates and Long-term Interest in Associates and Joint Ventures
Annual Improvements to PFRS 2015-2017 Cycle		
PFRS 3 (Amendments)	:	Business Combination
PFRS 11 (Amendments)	:	Joint Arrangements

(c) *Effective Subsequent to 2019 but not Adopted Early*

Among the new amendments to existing standards effective for annual periods subsequent to 2019, which are adopted by the FRSC, amendments to PAS 1 and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Material* (effective from January 1, 2020), are relevant to the Company. The amendments clarify the definition of 'materiality' in PAS 1 and how it should be applied. The amendments also improve the explanations of the definition and ensure consistency across all PFRSs and other pronouncements. Management will adopt the relevant pronouncements 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.

2.3 Financial Assets

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

(a) *Classification, Measurement and Reclassification of Financial Assets*

The classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement of financial assets are at amortized cost, at FVOCI and at fair value through profit or loss (FVTPL).

The financial assets category that is currently relevant to the Company is financial assets at amortized cost.

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

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

Except for trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with PFRS 15, *Revenue from Contracts with Customers*, all financial assets meeting these criteria are measured initially at fair value plus

transaction costs. These are subsequently measured at amortized cost using the effective interest method, less any impairment in value.

The Company's financial assets at amortized cost are presented in the statement of financial position as Cash, Trade and Other Receivables, and Due from Related Parties.

For purposes of cash flows reporting and presentation, cash includes cash on hand and demand deposits which are subject to insignificant risk of changes in value.

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

(b) Impairment of Financial Assets

The Company assesses its expected credit loss (ECL) on a forward-looking basis associated with its financial assets carried at amortized cost. The Company considers a broader range of information in assessing credit risk and measuring ECL, including past events, current conditions, and reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets.

The Company applies the simplified approach in measuring ECL, which uses a lifetime expected loss allowance for all trade and other receivables. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial assets. To calculate the ECL, the Company uses its historical loss experience, external indicators and forward-looking information to calculate the ECL using a provision matrix.

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

- *Probability of default* - It is an estimate of likelihood of default over a given time horizon.
- *Loss given default* - It is an estimate of loss arising in case where a default occurs at a given time. It is based on the difference between the contractual cash flows of a financial instrument due from a counterparty and those that the Company would expect to receive, including the realization of any collateral.
- *Exposure at default* - It represents the gross carrying amount of the financial instruments subject to the impairment calculation.

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

(c) Derecognition of Financial Assets

The financial assets (or where applicable, a part of a financial asset or part of a group of financial assets) are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the 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 or net realizable value. Cost is determined using the moving average method. The cost of inventories includes all costs directly attributable to acquisition such as the purchase price, including transport and handling costs, and other incidental expenses incurred in bringing the inventories to their present location and condition.

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

At the end of each reporting period, inventories are assessed for impairment, i.e., the carrying amount is fully recoverable due to damage, obsolescence or declining selling prices (see Note 2.13).

2.5 *Other Assets*

Other assets pertain to other resources controlled by the Company as a result of past events. They are recognized at cost in the financial statements when it is probable that the future economic benefits will flow to the Company and the asset has a cost or value that can be measured reliably. They are derecognized, charged to profit or loss, or reclassified to another asset account upon consumption or use.

Advances for purchases that will be applied as payment for future purchase of inventories are classified and presented under the Other Current Assets account in the statement of financial position. On the other hand, advances to suppliers that will be applied as payment for future acquisition or construction of property and equipment are classified and presented under the Other Non-current Assets account in the statement of financial position. The classification and presentation is based on the eventual usage or realization of the asset to which it was advanced for.

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

2.6 *Property and Equipment*

All items of property and equipment are stated at cost less accumulated depreciation, accumulated 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 is computed on a straight-line basis over the estimated useful lives of the assets as follows:

Store equipment	8 to 10 years
Furniture, fixtures and office equipment	5 to 8 years
Transportation equipment	5 years

Leasehold improvements are amortized over their estimated useful lives of 15 years or the lease term, whichever is shorter.

Construction-in-progress represents properties under construction and is stated at cost. This includes cost of construction, applicable borrowing costs and other direct costs (see Note 2.15). The account is not depreciated until such time that the assets are completed and available-for-use. Fully depreciated and fully amortized assets are retained in the accounts until these 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 2.13).

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

If there is an indication that there has been a significant change in the useful life, residual value of an asset, or method of depreciation or amortization, the depreciation or amortization of that asset is revised prospectively to reflect the new expectations.

An item of property and equipment including the related accumulated depreciation and amortization, and impairment losses, if any, 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 period the item is derecognized.

2.7 *Financial Liabilities*

Financial liabilities, which include Trade and Other Payables (except tax-related liabilities), Loans Payable, Lease Liability and Due to Related Parties, are recognized when the Company becomes a party to the contractual terms of the instrument. All interest-related charges incurred on a financial liability are recognized as Finance charges under Other Income (Charges) in the statement of comprehensive income.

Loans payable are raised for support of short-term and long-term funding of operations and are recognized initially at the transaction price. Loans payable are subsequently measured at amortized cost. Finance charges, including direct issue costs, are charged to profit or loss, except for capitalized borrowing costs, 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 recognized initially at their fair values 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.

2.8 *Offsetting of 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.

2.9 *Segment Reporting*

Operating segments are reported in a manner consistent with the internal reporting provided to the Company's BOD - its chief operating decision-maker. The Company's BOD is responsible for assessing performance of the operating segments. In identifying its operating segments, management generally follows the Company's business line as disclosed in Note 4.

The measurement policies that the Company uses for segment reporting under PFRS 8, *Operating Segments*, are the same as those used in its financial statements.

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.

2.10 *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.

2.11 Revenue and Expense Recognition

Revenue arises mainly from the sale of merchandise.

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

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

For Step 1 to be achieved, the following five gating criteria must be present:

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

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

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

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

The Company enters into transactions involving the sale and delivery of merchandise representing construction materials, home improvement, furnishings and décor products. In addition, the Company also recognizes vendors' support and marketing fees in relation to the vendors' participation in the marketing/promotional activities of the Company. The significant judgments used in determining the transaction price and the amounts allocated to the performance obligations are disclosed in Note 3.1(b). The transaction price allocated to performance obligations satisfied at a point in time is recognized as revenue when control of the goods transfers to the customer. As a matter of accounting policy, when applicable, if the performance obligation is satisfied over time, the transaction price allocated to that performance obligation is recognized as revenue as the performance obligation is satisfied [see Note 3.1(a)].

In obtaining customer contracts, the Company incurs incremental costs. As the expected amortization period of these costs, if capitalized, would be less than one year, the Company uses the practical expedient in PFRS 15 and expenses such costs as incurred.

The Company also incurs costs in fulfilling contracts with customers. These costs are divided into: (i) costs that give rise to an asset; and, (ii) costs that are expensed as incurred. When determining the appropriate accounting treatment for such costs, the Company first considers any other applicable standards. If other standards preclude capitalization of a particular cost, then an asset is not

recognized under PFRS 15. If other standards are not applicable to contract fulfillment costs, the Company applies the following criteria, which, if met, result in capitalization:

- (i) the costs directly relate to a contract or to a specifically identifiable anticipated contract;
- (ii) the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and,
- (iii) the costs are expected to be recovered.

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

- a) *Sale of merchandise* – Revenue is recognized when the control transfers at a point in time with the customer, i.e., generally when the customer purchased the merchandise. For individual customers, payment of the transaction price is due immediately at the point the customer purchases the merchandise. On the other hand, invoices for merchandise purchased by corporate customers are due based on agreed terms and are provided upon receipt of merchandise by the customer.
- b) *Vendors' support and marketing fees* – Vendors' support and marketing fees arise from the vendors' participation in the marketing/promotional activities of the Company such as product exhibits, launch of new stores support and product features in various media platforms. The duration of contracts are generally short-term, and the related revenue are recognized over time as the performance of the contractually agreed tasks are rendered.
- c) *Delivery fees* – Delivery fees are charged for the transportation of merchandise from the Company's stores to a certain destination as agreed with the customer. Delivery fees are recognized over time as the services are provided. Payment of delivery fees is due immediately, i.e., upon the customer's purchase of merchandise.

As applicable, if the Company is required to refund the related purchase price for returned goods, it recognizes an outflow of cash or a reduction in trade receivables with a corresponding adjustment on the amount of revenues recognized during the reporting period. Also, the Company recognizes a right of return asset on the goods to be recovered from the customers with a corresponding adjustment to Cost of Goods Sold. However, there were no contracts containing significant right of return arrangements which remain outstanding during the reporting periods since the Company's policy with customers for most of its sale of merchandise pertain to outright return which are recognized immediately. Relative to this outright return arrangement, the amount of revenues are also immediately adjusted as of the end of the reporting periods [see Note 3.1(b)].

The Company operates a customer loyalty incentive programme where individual customers accumulate points for purchases made which entitle them for award credits on future purchases. The Company recognizes an expense and corresponding liability when points are earned. When the award credits are redeemed, the Company recognizes the consideration received allocated to award credits as reduction of rewards liability.

Costs and expenses are recognized in profit or loss upon utilization of the goods or services or at the date they are incurred. All finance charges are reported in profit or loss on an accrual basis, except capitalized borrowing costs, which are included as part of the cost of any related qualifying assets (see Note 2.15).

2.12 Leased Assets – Company as Lessee

As described in Note 2.2(a)(iii), the Company has applied PFRS 16 using the modified retrospective approach and therefore comparative information has not been restated. This means comparative information is still reported under PAS 17 and IFRIC 4.

Accounting Policy Applicable from January 1, 2019

For the outstanding contracts as of January 1, 2019 and any new contracts entered into on or after January 1, 2019, the Company considers whether a contract is, or contains a lease. A lease is defined as ‘a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.’ To apply this definition, the Company assesses whether the contract meets three key evaluations which are whether:

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

At lease commencement date, the Company recognizes a right-of-use asset and a lease liability on the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Company, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Company depreciates the right-of-use assets on a straight-line basis from the lease commencement date over the useful life of the leased asset or the term of the lease [see Note 3.1(e)], whichever is shorter. The Company also assesses the right-of-use asset for impairment when such indicators exist (see Note 2.13).

At the commencement date, the Company measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Company’s incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including those determined to be fixed in substance), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Company has elected to account for short-term leases (less than 12 months) and leases of low-value assets (value of assets is based on its cash price if bought) using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the lease payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets have been included as part of Property and Equipment (see Note 2.6), and Lease Liability is shown as a separate line item (see Note 2.7).

Accounting Policy Applicable before January 1, 2019

Leases which do not transfer to the Company substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments (net of any incentive received from the lessor) are recognized as expense in 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.

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.

2.13 *Impairment of Non-financial Assets*

The Company's property and equipment, and other non-financial assets are subject to impairment testing 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, some assets are tested for impairment either individually or at the cash-generating unit level.

Impairment loss is recognized 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.

2.14 *Employee Benefits*

The Company's employee benefits are recognized and measured as discussed below.

(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. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Company's defined benefit post-employment plan 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 for expected benefit payments using a discount rate derived from the interest rates of zero coupon government bonds [using the reference

rates published by Bloomberg using its valuation technology, Bloomberg Valuation (BVAL), that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability. BVAL provides evaluated prices that are based on market observations from contributed sources.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the defined benefit liability during the period as a result of benefit payments. Interest is reported as part of Finance charges under Other Income (Charges) in profit or loss.

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

(c) *Short-term Employee Benefits*

Short-term employee benefits include wages, salaries, bonuses and non-monetary benefits provided to current employees, which are expected to be settled before 12 months after the end of the annual reporting period during which an employee services are rendered, but does not include termination benefits. The undiscounted amount of the benefits expected to be paid in respect of services rendered by employees in an accounting period is recognized in profit or loss during that period and any unsettled amount at the end of the reporting period is included as part of Accrued expenses under Trade and Other Payables in the statement of financial position.

(d) *Termination Benefits*

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

(e) *Compensated Absences*

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

2.15 *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, if any, earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

2.16 *Income Taxes*

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

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

Deferred tax is accounted for using the liability method, on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the 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 deferred tax liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

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

The measurement of deferred tax assets or deferred tax liabilities 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.

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

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

2.17 *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.

2.18 *Equity*

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

Retained earnings represent all current and prior period results of operations as reported in the profit or loss section of the statement of comprehensive income, reduced by the amounts of dividends declared, if any.

2.19 *Basic and Diluted Earnings Per Share*

Basic earnings per share (EPS) is determined by dividing net profit by the weighted average number of common shares issued, adjusted for any stock dividends or stock splits, less any shares held in treasury during the reporting period (see Note 19).

The diluted EPS is also computed by dividing net profit by the weighted average number of common shares issued and outstanding during the reporting period. However, net profit attributable to common shares and the weighted average number of common shares outstanding are adjusted to reflect the effects of any potentially dilutive preferred shares, convertible loans and stock options.

Currently, the basic and diluted EPS are the same as there are no dilutive preferred shares, convertible loans and stock options (see Note 20).

2.20 *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 preparation of the Company's financial statements in accordance with PFRS requires management to make judgments and estimates that affect the 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) Determination of Timing of Satisfaction of Performance Obligations

In determining the appropriate method to use in recognizing the Company's revenues from sale of merchandise, management determines that revenue is recognized at a point in time when the control of the goods have passed to the customer, i.e., generally when the customer acknowledges delivery of the goods.

On the other hand, revenues from vendors' support, marketing fees and delivery fees are recognized over time when the Company transfers control of the services over time as the performance of contractually agreed tasks are rendered. The management considers the output method under PFRS 15 as the Company recognizes revenue on the basis of direct measurements of the value to the customer of the services transferred to date relative to the services promised under the contract.

(b) Determination of Transaction Price and Amounts Allocated to Performance Obligation

The transaction price is considered receivable to the extent of products sold with a right to avail customer loyalty points, right of return, discounts and rebates. The recognition and measurement of customer loyalty points is described in Note 2.11.

Management has assessed that the amount involved for the right of return is not material and in most cases, customers could exchange the returned items with another merchandise in the store within the prescribed period (i.e., within seven days from date of purchase). Discounts and rebates are identifiable to specific goods and are recognized as reduction against the revenue recognized from sale of merchandise.

(c) Determination of ECL on Trade and Other Receivables, and Due from Related Parties

The Company uses a provision matrix to calculate ECL for trade and other receivables. The provision rates are based on days past due for groupings of various customer segments to the extent applicable that have similar loss patterns (i.e., by geography, product type, or customer type and rating).

The provision matrix is based on the Company's historical observed default rates. The Company's management intends to regularly calibrate (i.e., on an annual basis) the matrix to consider the historical credit loss experience with forward-looking information (i.e., forecast economic conditions). Details about the ECL on the Company's trade and other receivables, and due from related parties are disclosed in Note 22.2.

In relation to advances to related parties, PFRS 9 notes that the maximum period over which ECL should be measured is the longest contractual period where the Company is exposed to credit risk. In the case of these receivables from related parties, which are repayable on demand, the contractual period is the very short period needed to transfer the cash once demanded.

Management determines ECL based on the sufficiency of the related parties' highly liquid assets in order to repay the Company's receivables if demanded at the reporting date, taking into consideration the historical defaults of the related parties. If the Company cannot immediately collect its receivables, management considers the expected manner of recovery to measure ECL. If the recovery strategies indicate that the outstanding balance of

receivables can be fully collected, the ECL is limited to the effect of discounting the amount due over the period until cash is realized.

(d) Distinction Between Operating and Finance Leases (2018)

Prior to 2019, the Company has entered into various lease agreements as a lessee. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. 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) Estimation of Lease Term and Discount Rate Used (2019)

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or change in circumstances occurs which affects this assessment and that is within the control of the lessee.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

(f) Capitalization of Borrowing Costs

The Company determines whether the amount of borrowing costs qualify for capitalization as part of the cost of the qualifying asset, or should be expensed outright. The accounting treatment for the finance charges is determined by assessing whether the asset is a qualifying asset taking into consideration the period of time needed to bring the asset for its intended use. Failure to make the right judgment will result in the misstatement of assets and net profit.

(g) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Accounting policies on recognition and disclosure of provisions and contingencies are discussed in Notes 2.10 and 21.

3.2 Key Sources of Estimation Uncertainty

Presented below and in the succeeding pages 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) Measurement of Allowance for ECL

The measurement of the allowance for ECL on financial assets at amortized cost is an area that requires the use of significant assumptions about the future economic conditions and credit behavior (e.g., likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation used in measuring ECL is further detailed in Note 22.2.

(b) Determination of Net Realizable Value of Inventories

In determining the net realizable value of inventories, management takes into account the most reliable evidence available at the time the estimates are made. The Company's products are subject to inventory obsolescence. Moreover, future realization of the carrying amounts of inventories as presented in Note 7 is affected by price changes of the products and the costs incurred necessary to make a sale. Both aspects are considered key sources of estimation uncertainty and may cause significant adjustments to the Company's inventories within the next financial reporting period.

(c) Estimation of Useful Lives of Property and Equipment

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

The carrying amounts of property and equipment are analyzed in Note 9. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(d) Determination of the 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 assessed that the deferred tax assets recognized as at September 30, 2019 will be fully utilized in the coming periods.

The carrying value of deferred tax assets as of September 30, 2019 amounted to ₱110.8 million, while there were no deferred tax assets recognized in 2018 (see Note 17).

(e) Valuation of Post-employment Defined Benefit Obligation

The determination of the Company's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates and expected salary increase rates. 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 benefit obligation and expense, and an analysis of the movements in the estimated present value of post-employment benefit, as well as the significant assumptions used in estimating such obligation are presented in Note 16.2.

(f) Impairment of Non-financial Assets

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2.13). 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 those assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Management has assessed that no impairment losses are required to be recognized on non-financial assets both in 2019 and 2018.

4. Segment Reporting

The Company has only one reportable segment, i.e., its trading business, which caters to individual and corporate customers.

Further, the Company has only one geographical segment as all of its operations are based in the Philippines.

5. Cash

Cash includes the following components:

	Unaudited Sept 30, 2019	Audited Dec 31, 2018
Cash in banks	₱253,307,271	₱294,874,381
Cash on hand	3,755,000	3,618,000
	₱257,062,271	₱298,492,381

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

Interest income on these bank deposits is shown as Finance income under Other Income (Charges) in the statements of comprehensive income.

6. Trade and Other Receivables - net

This account is composed of the following:

	Notes	Unaudited Sept 30, 2019	Audited Dec 31, 2018
Trade receivables			
Third parties		₱149,283,651	₱870,485,037
Related parties	18.4	—	181,672,361
Non-trade receivables	16.2, 18	46,566,715	140,177,605
Advances to officers and employees		6,094,724	4,051,394
Allowance for doubtful		(12,952,566)	—
		₱188,992,524	₱1,196,386,397

Trade receivables are due from various customers and have credit terms ranging from 30 days to 60 days. The carrying amounts of the receivables are considered a reasonable approximation of fair values due to their short duration.

Advances to officers and employees pertain to cash advances subject for liquidation and personal cash advances collected through salary deduction.

Non-trade receivables comprise of the Company's receivables from suppliers arising from vendors' support, marketing fees, miscellaneous income and receivable for the transferred retirement benefit obligation from a related party under common ownership (see Notes 16.2 and 18).

All of the Company's trade and other receivables have been assessed for ECL in 2019 and 2018. In 2019 and 2018, the Company recognized an impairment loss amounting to ₱13.0 million and ₱14.5 million, respectively, is presented as part of Other Operating Expenses in the statements of comprehensive income (see Note 14.2).

7. Inventories

Inventories pertain to goods owned by the Company, which include construction materials, home improvements, furnishings and décor products, among others, that are traded under the normal course of business, and amounted to ₱4.8 billion and ₱2.7 billion as of September 30, 2019 and December 31, 2018, respectively (see Note 14.1).

The Company did not provide any allowance for inventory obsolescence as the inventories are deemed saleable. Further, inventories were stated at cost, which is lower than net realizable value, at the end of September 30, 2019 and December 31, 2018. Cost of inventories charged to operations are presented as Cost of Goods Sold in the statements of comprehensive income (see Note 14.1)

8. OTHER ASSETS

This composition of this account is shown below:

	Unaudited Sept 30, 2019	Audited Dec 31, 2018
Current:		
Advances for purchases	₱468,000,472	₱540,658,494
Deferred input value-added taxes (VAT)	39,594,713	52,659,210
Prepaid rent	66,363,131	46,323,372
Others	111,367,100	14,471,836
	<u>685,325,416</u>	<u>654,112,912</u>
Non-current:		
Advances to suppliers	440,682,235	272,168,819
	<u>440,682,235</u>	<u>272,168,819</u>
	<u>₱1,126,007,651</u>	<u>₱926,281,731</u>

Advances for purchases pertaining to mobilization funds made to various third party suppliers, including service providers, which are primarily used in the purchase of inventories subsequent to September 30, 2019 and December 31, 2018 are presented as part of Other Current Assets in the statements of financial position.

Advances to suppliers pertaining to mobilization funds made to various contractors for the construction of several items under property and equipment are presented as Other Non-current Asset in the statements of financial position.

Others consist of prepaid taxes and licenses, supplies and advertising.

9. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of property and equipment at the beginning and end of September 30, 2019 and December 31, 2018 are shown below.

	Store Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Leasehold Improvement	Right-of-use Assets - Store Outlets	Right-of-use Assets - Warehouse	Construction- in-Progress	Total
Unaudited Sept 30, 2019								
Cost	P2,163,201,974	P295,011,655	P126,234,130	P2,368,713,041	P4,233,916,260	P75,853,974	P1,083,686,361	P10,346,617,395
Accumulated depreciation and amortization	(337,492,969)	(85,103,146)	(52,670,163)	(218,476,327)	(273,232,821)	(20,613,877)	—	(987,589,303)
Net carrying amount	P1,825,709,005	P209,908,509	P73,563,967	P2,150,236,714	P3,960,683,439	P55,240,097	P1,083,686,361	P9,359,028,092
Audited Dec 31, 2018								
Cost	P1,633,365,002	P205,264,089	P104,820,990	P1,468,831,413	—	—	P77,927,483	P3,490,208,977
Accumulated depreciation and amortization	(242,992,549)	(58,026,971)	(45,454,749)	(174,274,922)	—	—	—	(520,749,191)
Net carrying amount	P1,390,372,453	P147,237,118	P59,366,241	P1,294,556,491	—	—	P77,927,483	P2,969,459,786

	<u>Store Equipment</u>	<u>Furniture, Fixtures and Office Equipment</u>	<u>Transportation Equipment</u>	<u>Leasehold Improvement</u>	<u>Right-of-use Assets - Store Outlets</u>	<u>Right-of-use Assets - Warehouse</u>	<u>Construction- in-Progress</u>	<u>Total</u>
Balance at January 1, 2019, net of accumulated depreciation and amortization	P1,390,372,453	P147,237,118	P59,366,241	P1,294,556,491	P–	P–	P77,927,483	P2,969,459,786
Effect of adoption of PFRS 16	–	–	–	–	3,159,007,747	75,853,974	–	3,234,861,721
Subtotal	<u>P1,390,372,453</u>	<u>P147,237,118</u>	<u>P59,366,241</u>	<u>P1,294,556,491</u>	<u>3,159,007,747</u>	<u>75,853,974</u>	<u>P77,927,483</u>	<u>6,204,321,507</u>
Additions								
Other property and equipment	256,540,819	89,747,566	1,975,286	82,003,343	–	–	2,116,371,170	2,546,638,184
Right-of-use asset	–	–	–	–	1,074,908,513	–	–	1,074,908,513
Reclassification	273,296,153	–	19,437,854	817,878,285	–	–	(1,110,612,292)	–
Depreciation and amortization changes for the year	<u>(94,500,420)</u>	<u>(27,076,175)</u>	<u>(7,215,414)</u>	<u>(44,201,405)</u>	<u>(273,232,821)</u>	<u>(20,613,877)</u>	<u>–</u>	<u>(466,840,112)</u>
Balance at September 30, 2019, net of accumulated depreciation	<u>P1,825,709,005</u>	<u>P209,908,509</u>	<u>P73,563,967</u>	<u>P2,150,236,714</u>	<u>P3,960,683,439</u>	<u>P55,240,097</u>	<u>P1,083,686,361</u>	<u>P9,359,028,092</u>
	<u>Store Equipment</u>	<u>Furniture, Fixtures and Office Equipment</u>	<u>Transportation Equipment</u>	<u>Leasehold Improvement</u>	<u>Right-of-use Assets - Store Outlets</u>	<u>Right-of-use Assets - Warehouse</u>	<u>Construction- in-Progress</u>	<u>Total</u>
Balance at January 1, 2018, net of accumulated depreciation and amortization	P541,187,008	P79,801,666	P58,589,454	P671,390,886	P–	P–	P570,825,400	P1,921,794,414
Additions	385,440,597	68,395,579	7,614,781	326,553,718	–	–	437,369,106	1,225,373,781
Reclassification	540,300,641	26,429,984	2,566,525	360,969,873	–	–	(930,267,023)	–
Depreciation and amortization changes for the year	<u>(76,555,793)</u>	<u>(27,390,111)</u>	<u>(9,404,519)</u>	<u>(64,357,986)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(177,708,409)</u>
Balance at December 31, 2018, net of accumulated depreciation	<u>P1,390,372,453</u>	<u>P147,237,118</u>	<u>P59,366,241</u>	<u>P1,294,556,491</u>	<u>P–</u>	<u>P–</u>	<u>P77,927,483</u>	<u>P2,969,459,786</u>

Construction-in-progress pertains to accumulated costs incurred on the construction of new stores

The Company's right-of use assets pertain to store and warehouse facilities with a term ranging from 10 to 16 years and an average remaining lease term of 10 years. In addition, there are 24 leases with extension options and 22 leases with variable consideration. There are no leases with options to purchase or terminate.

The amount of depreciation and amortization is presented as part of Other Operating Expenses in the statements of comprehensive income (see Note 14.2).

In 2019 and 2018, borrowing costs amounting to ₱147.3 million and ₱57.0 million, respectively, based on capitalization rate ranging from 6.25% to 6.69% for specific borrowing in those years, were capitalized as part of construction-in-progress (see Note 11).

As of September 30, 2019 and December 31, 2018, the gross carrying amount of the Company's fully depreciated property and equipment that are still used in operations is ₱25.9 million and ₱17.7 million, respectively.

There were no items of property and equipment that were used as collateral for any of the Company's loans.

10. TRADE AND OTHER PAYABLES

This account consists of:

	Note	Unaudited Sept 30, 2019	Audited Dec 31, 2018
Trade Payable		₱955,095,883	₱182,216,416
Non-trade payables		153,112,703	67,189,974
Accrued expenses	11	124,372,275	93,153,371
VAT payable		78,842,116	12,966,898
Withholding tax payable		38,340,316	10,130,673
Retention payable		51,486,628	13,122,281
Others		1,761,376	1,091,677
		₱1,403,011,297	₱379,871,290

Trade payables arise from the Company's purchases of inventories and other direct costs. These are noninterest-bearing and are payable on demand.

Non-trade payables arise from the Company's capital asset acquisitions and other operating expenditures not yet paid as of the end of the period.

Accrued expenses are liabilities arising from unpaid interest on loans, rent, utilities, salaries and others costs.

Retention payable pertains to the amount withheld from service contractors which shall be refunded at the end of the contract.

11. LOANS AND BORROWINGS

The account consists of:

	Note	Unaudited Sept 30, 2019	Audited Dec 31, 2018
Current:			
Short-term loans	11.1	₱2,701,300,000	₱1,200,000,000
Maturing portions of long-term loans	11.2	784,615,385	476,923,077
		3,485,915,385	1,676,923,077
Non-current:			
Long-terms loans	11.2	1,992,307,692	2,638,461,538
		₱5,478,223,077	₱4,315,384,615

11.1 Short-term loans

The Company obtained various short-term loans from various local banks for the Company's working capital requirements with fixed interest rates ranging from 7.3% to 8.75% and with terms of 180 days. These loans are rolled-over upon maturity and are secured by cross suretyship of the Company's parent company (see Note 18.3). There are no loan covenants on the Company's short-term loans.

11.2 Long-term Loans

In 2019 and 2018, the Company obtained five-year corporate loans, inclusive of two-year grace period, from various local banks, to finance the construction and expansion of the Company's stores, with fixed interest rates ranging from 6.25% to 6.69% both in 2019 and 2018. The loans are secured by cross suretyship of the Company's parent company (see Note 18.3).

The Company has properly complied with the loans' covenants as of September 30, 2019 and December 31, 2018.

The total interest expense incurred on loans amounted to ₱120.3 million and ₱44.4 million in 2019 and 2018, respectively, and is presented as Finance charges under Other Income (Charges) in the statements of comprehensive income (see Note 15.2).

In 2019 and 2018, borrowing costs from long-term loans amounting to ₱147.3 million and ₱57.0 million, respectively, based on capitalization rate ranging from 6.25% to 6.69% for specific borrowing in those years, were capitalized as part of construction-in-progress (see Note 9).

Interest payable from these loans amounted to ₱19.4 million and ₱22.7 million as of September 30, 2019 and December 31, 2018, respectively, and is presented as part of Accrued expenses under Trade and Other Payables in the statements of financial position (see Note 10).

12. Leases

Lease liabilities are presented in the 2019 statement of financial position as follows:

Current	₱330,575,610
Non-current	4,048,908,653
	₱4,379,484,263

The Company is a lessee under non-cancellable operating leases with related parties under common ownership and third parties covering its various store outlets and warehouse facilities. The leases have terms ranging from 3 to 15 years with renewal options and annual escalation rates of 5% both in 2019 and 2018. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected in the statement of financial position as a right-of-use asset and a lease liability. Variable lease payments which do not depend on an index or a rate (such as lease payments based on a percentage of Company sales) are excluded from the initial measurement of the lease liability and asset. The Company classifies its right-of-use assets in a manner consistent with its property and equipment in the 2019 statement of financial position (see Note 9).

Each lease generally imposes a restriction that, unless there is a contractual right for the Company to sublease the asset to another party, the right-of-use asset can only be used by the Company. The Company must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Company must insure items of property and equipment and incur maintenance fees on such items in accordance with the lease contracts.

Total cash outflows for the period ended September 30, 2019 are as follows:

Principal of lease liability	₱206,164,643
Interest on lease liability	<u>194,996,189</u>
	<u>₱401,160,832</u>

The movements in the lease liability recognized in the 2019 statement of financial position are as follows:

Balance as of December 31, 2019	₱—
Effect of adoption of PFRS 16	<u>3,510,740,393</u>
Balance as of January 1, 2019	3,510,740,393
Additions	1,074,908,513
Repayment of lease liability	<u>(206,164,643)</u>
Balance as of September 30, 2019	<u>₱4,379,484,263</u>

13. REVENUES

The Company's revenues arise from sale transactions with individual and corporate customers in the Philippines totaling to ₱8.2 billion and ₱4.8 billion in 2019 and 2018, respectively.

The 2019 disaggregation on revenue recognition whether point in time or over time is shown below:

	Point in time	Over time	Total
Sale of merchandise (Note 18.4)	₱8,183,487,442	₱—	₱8,183,487,442
Vendors' support	—	179,137,064	179,137,064
Marketing fees	—	29,065,052	29,065,052
Delivery fees	—	24,865,556	24,865,556
Gondola rental	—	16,151,929	16,151,929
Miscellaneous	<u>4,186,163</u>	<u>—</u>	<u>4,186,163</u>
	<u>₱8,187,673,605</u>	<u>₱249,219,601</u>	<u>₱8,436,893,206</u>

This compares to the 2018 disaggregation on revenue recognition whether point in time or over time as follows:

	Point in time	Over time	Total
Sale of merchandise (Note 18.4)	P4,769,971,686	P—	P4,769,971,686
Vendors' support	—	67,217,278	67,217,278
Marketing fees	—	12,473,750	12,473,750
Delivery fees	—	20,718,055	20,718,055
Gondola rental		1,092,613	1,092,613
Miscellaneous	8,354,063	—	8,354,063
	<u>P4,778,325,749</u>	<u>P101,501,696</u>	<u>P4,879,827,445</u>

Vendors' support and marketing fees, delivery fees and miscellaneous are presented as part of Other Income account in the statements of comprehensive income (see Note 15.1).

14. COST OF GOODS SOLD AND OTHER OPERATING EXPENSES

14.1 Cost of Goods Sold

The details of cost of goods sold are shown below:

	Note	Unaudited Sept 30, 2019	Unaudited Sept 30, 2018
Inventories at beginning of period	7	P2,690,897,676	P1,494,289,776
Purchases during the period		<u>7,834,747,551</u>	<u>4,458,030,509</u>
Cost of goods available for sale		10,525,645,227	5,952,320,285
Inventories at end of period	7	<u>4,775,489,179</u>	<u>2,582,386,070</u>
		<u>P5,750,156,048</u>	<u>P3,369,934,215</u>

14.2 Other Operating Expenses

	Note	Unaudited Sept 30, 2019	Unaudited Sept 30, 2018
Depreciation and amortization	9	P466,840,112	P123,656,661
Salaries, wages and employee benefits	16.1	197,180,178	121,544,046
Outside services		159,437,734	169,905,044
Communication and utilities		134,554,757	150,437,952
Rentals:	21.1		
Variable lease payments		95,117,229	—
Operating leases		—	327,775,353
Merchant fees		75,830,085	58,875,273
Taxes and licenses		43,477,362	32,649,568
Advertising and promotions		23,861,833	36,281,745
Transportation expense		17,411,752	17,537,185
Repairs and maintenance		16,839,433	17,377,064
Office and store supplies		16,422,881	15,723,063
Impairment loss	6	12,952,566	14,541,579
Dues and subscriptions		9,938,869	27,724,726
Professional fees		8,588,957	1,935,045
Representation and entertainment		4,847,431	4,811,270
Miscellaneous		<u>19,307,246</u>	<u>16,924,465</u>
		<u>P1,302,608,425</u>	<u>P1,137,700,039</u>

15. OTHER INCOME AND CHARGES

15.1 Other Income

Other income includes the following (see Note 13):

	Unaudited Sept 30, 2019	Unaudited Sept 30, 2018
Vendors' support	P179,137,064	P67,217,278
Marketing fees	29,065,052	12,473,750
Delivery fees	24,865,556	20,718,055
Gondola rental	16,151,929	1,092,613
Miscellaneous	4,186,163	8,354,063
	P253,405,764	P109,855,759

Miscellaneous income comprise of support received from supplier for store opening and selling out of phased item.

15.2 Finance Charges

	Note	Unaudited Sept 30, 2019	Unaudited Sept 30, 2018
Interest expense from:			
Lease liability	12	P194,996,189	P—
Loans payable	11	120,276,613	44,437,028
Retirement benefit obligation	16.2	2,074,963	—
Bank service charge		232,791	23,077
		P317,580,556	P44,460,105

16. SALARIES, WAGES AND EMPLOYEE BENEFITS

16.1 Salaries, Wages and Employee Benefits

Expenses recognized for salaries, wages and employee benefits in 2019 and 2018 are presented below:

	Unaudited Sept 30, 2019	Unaudited Sept 30, 2018
Salaries and wages	P165,313,004	P108,772,929
Post-employment benefits	11,850,357	—
Other short-term benefits	20,016,817	12,771,117
	P197,180,178	P121,544,046

16.2 Post-employment Defined Benefit Plan

(a) Characteristics of the Defined Benefit Plan

The Company maintains an unfunded, noncontributory post-employment defined benefit plan covering all qualified employees.

The normal retirement age of the Company's employees is at 60 with a minimum of five years of credited service. The compulsory retirement age is at 65 with a minimum of five years of credited service. The normal retirement benefit is equal to 100% of the monthly salary multiplied by every year of credited service.

Explanation of Amounts Presented in the Financial Statements

The actuarial valuation was made in March 2019 by an independent actuary. The retirement benefit obligation amounted to ₱30.6 million as of September 30, 2019 and is presented as Retirement Benefit Obligation in the 2019 statements of financial position.

The movements in the present value of the retirement benefit obligation recognized in the statements of financial position are as follows:

Balance at the beginning of the year	₱
Transferred liability	16,716,248
Current service cost	11,850,357
Interest expense	2,074,963
Balance as at September 30, 2019	<u>₱30,641,568</u>

In March 2019, the Company recognized receivable for the transferred retirement benefit obligation related to the transfer of employees to the Company from a related party under common ownership amounting to ₱16.7 million and is presented as part of Non-trade receivables under Trade and Other Receivables in the 2019 statements of financial position (see Notes 6 and 18).

The amounts of post-employment benefit recognized in profit or loss in respect of the defined benefit post-employment plan are as follows (see Note 15.2 and Note 16.1):

Current service cost	₱11,850,357
Interest expense	2,074,963
Balance as at September 30, 2019	<u>₱13,925,320</u>

The interest expense is included as part of Finance Charges under Other Income (Charges) in the 2019 statements of comprehensive income (see Note 15.2).

In determining the amount of the retirement benefit obligation, the following significant actuarial assumptions were used for the period ended September 30, 2019:

Discount rate	5.97%
Expected rate of salary increases	7.75%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 60 is 31 years. 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 obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

As of December 31, 2018, the Company has not obtained an actuarial valuation to determine the balance of post-employment benefit obligation and the amount of retirement benefit expense in accordance with PAS 19 (Revised) and the provisions of RA No. 7641, *The New Retirement Law*, as there are less than 10 employees who have been with the Company for a minimum of five years.

(b) 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.

(c) Other Information

The information on the sensitivity analysis for certain significant actuarial assumptions and the timing and uncertainty of future cash flows related to the retirement plan as of September 30, 2019 are discussed below risk.

(i) Sensitivity Analysis

	Impact on Retirement Benefit Obligation		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	+/-1%	(23,892,346)	32,825,859
Salary growth rate	+/-1%	32,856,507	(23,791,262)

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

The plan is currently unfunded by ₱30.6 million based on the latest actuarial valuation. While there are no minimum funding requirement in the country, the size of the underfunding may pose a cash flow risk that the Company may be exposed to if several employees retire within the same year.

The Company has yet to determine when to establish a retirement fund and how much to contribute.

The maturity profile of the undiscounted expected benefit payments as of September 30, 2019 from the plan follows:

Within five years	₱7,635,669
More than five years to 10 years	10,954,638
More than 10 years	<u>758,548,177</u>
	<u><u>₱777,138,484</u></u>

Management expects that a substantial portion of the undiscounted expected benefit payments is probable after 10 years from the end of the reporting period. The weighted average duration of the defined benefit obligation at the end of the reporting period is 25 years.

17. INCOME TAXES

The components of tax expense as reported in profit or loss:

	Unaudited Sept 30, 2019	Unaudited Sept 30, 2018
Current tax expense:		
Regular corporate income tax (RCIT) at 30%	₱243,732,758	₱67,898,551
Final tax at 20%	35,295	38,456
Excess of minimum corporate income tax (MCIT) at 2% over RCIT	<u>—</u>	<u>—</u>
	243,768,053	67,937,007
Deferred tax expense relating to originating and reversal of other temporary differences	<u>76,838,455</u>	<u>30,421,375</u>
	<u><u>₱320,606,508</u></u>	<u><u>₱98,358,382</u></u>

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

	Unaudited Sept 30, 2019	Unaudited Sept 30, 2018
Tax on pretax profit at 30%	₱320,039,039	₱98,379,117
Adjustment for income subjected to lower tax rate	(17,647)	(20,735)
Tax effects of non-deductible expense	<u>585,116</u>	<u>—</u>
Tax expense	<u><u>₱320,606,508</u></u>	<u><u>₱98,358,382</u></u>

The Company is subject to the MCIT computed at 2% of gross income as defined under the tax regulations, or RCIT, whichever is higher. The Company reported RCIT in 2019 and 2018. The deferred tax liabilities as of September 30, 2019 and December 31, 2018 relate to the following:

	Statements of Financial Position		Statements of Comprehensive Income	
	Unaudited	Audited	Unaudited	Unaudited
	Sept 30, 2019	Dec 31, 2018	Sept 30, 2019	Sep 30, 2018
Deferred tax assets:				
Leases - PFRS 16	₱102,723,638	₱–	(₱9,611,676)	₱–
Retirement obligation	4,177,596	–	(4,177,596)	–
Impairment loss	3,885,770	–	(3,885,770)	–
MCIT	–	–	–	–
	110,787,004	–	(17,675,042)	–
Deferred tax liabilities:				
Borrowing costs	(119,439,030)	(82,682,132)	36,756,898	30,421,375
Depreciation	(121,104,357)	(63,347,758)	57,756,599	–
	(240,543,387)	(146,029,890)		
Deferred tax liabilities – net	(₱129,756,383)	(₱146,029,890)		
Deferred tax expense			₱76,838,455	₱30,421,375

The Company claimed itemized deductions for 2019 and 2018 in computing for its income tax due.

18. RELATED PARTY TRANSACTIONS

The Company's related parties include its ultimate parent company, parent company, related parties under common ownership, key management personnel and others. The summary of the Company's transactions with its related parties for the three months ended September 30, 2019 and 2018, and the related outstanding balances as of September 30, 2019 and December 31, 2018 are discussed in the succeeding pages.

Related Party Category	Notes	Amount of Transactions		Outstanding Balance	
		2019	2018	Unaudited Sept 30, 2019	Audited Dec 31, 2018
Parent Company:					
Advances obtained - net	18.1	(₱501,254,992)	(₱251,461,940)	₱–	(₱625,352,292)
Assignment of advances	18.2	128,607,284	–	–	–
Sale of merchandise	18.4	98,550	–	–	–
Debt-to-equity conversion	19.1	1,000,000,000	–	–	1,864

Related Party Category	Notes	Amount of Transactions		Outstanding Balance	
		2019	2018	Unaudited Sept 30, 2019	Audited Dec 31, 2018
Common Ownership:					
Lease liability		₱ 3,603,267,697	₱ –	(₱3,603,267,697)	₱ –
Right-of-use					
Asset (PFRS 16)		3,273,764,562	–	3,273,764,562	–
Depreciation					
(PFRS 16)		233,844,948	–	–	–
Interest (PFRS 16)		156,517,789	–	–	–
Sale of merchandise		43,675,926	2,874,132	–	181,670,497
Transferred retirement					
obligation		16,716,248	–	16,716,248	
Advances paid - net		(133,913,000)	30,000,000	–	133,913,000
Assignment of advances		(128,607,284)	–	–	(2,000,000)
Advances assigned		2,000,000			
Rentals		53,857,935	167,731,070	–	(43,451,237)
Key Management					
Personnel –					
Compensation		8,100,000	–	–	

All outstanding balances from related parties are noninterest-bearing, unsecured and payable/collectible in cash on demand, unless otherwise stated.

18.1 Advances Obtained

The Company obtains unsecured, noninterest-bearing cash advances from its parent company and related parties under common ownership for its working capital requirements, which are payable in cash on demand. Outstanding payable arising from these transactions are presented as Due to Related Parties in the statements of financial position.

The details of Due to Related Parties are as follows:

	Unaudited Sept 30, 2019	Audited Dec 31, 2018
Parent company	P–	P625,352,292
Related party under common ownership – Golden Bria Holdings, Inc.	–	2,000,000
	P–	P627,352,292

In 2019, the Company's payable to Golden Bria Holdings, Inc. was assigned to the parent company.

An analysis of the movement in the due to related parties is shown below:

	Unaudited Sept 30, 2019	Audited Dec 31, 2018
Balance at beginning of period	P627,352,292	P239,602,292
Advances obtained during the period	706,254,992	1,197,750,000
Advances paid during the period	(205,000,000)	(150,000,000)
Assignment of advances	(128,607,284)	–
Debt-to-equity conversion	(1,000,000,000)	(660,000,000)
Balance at the end of the period	P–	P627,352,292

18.2 Advances Granted

The Company provides unsecured, noninterest-bearing cash advances to its related parties under common ownership for their working capital requirements, which are collectible in cash on demand. Outstanding receivables from these transactions are presented as Due from Related Parties in the statements of financial position.

The details of Due from Related Parties as of December 31, 2018 are as follows:

AllDay Retail Concepts, Inc.	₱97,942,635
The Village Server, Inc.	31,450,036
Family Shoppers Unltd, Inc.	4,520,329
	<u>₱133,913,000</u>

In 2019, the Company's receivables from related parties under common ownership were assigned by the related parties to the parent company.

An analysis of the movements in the Due from Related Parties is shown below.

	Unaudited Sept 30, 2019	Audited Dec 31, 2018
Balance at beginning of period	₱133,913,000	₱125,913,000
Collection during the period	(341,975,716)	(22,470,365)
Advances granted during the period	336,670,000	30,470,365
Assignment of advances	(128,607,284)	—
Balance at the end of the period	₱—	₱133,913,000

Due from related parties were subject to impairment testing using PFRS 9's ECL model (see Note 22.2).

18.3 Guaranteed of Loans

The Company obtained short-term loans with interests ranging from 7.3% to 9.0% and long-term loans with interest ranging from 6.25% to 6.69% for additional working capital requirements, and store construction and expansion. The loans are secured by cross suretyship of its parent company (see Note 11).

18.4 Sale of Merchandise

The Company sells various merchandise items to its related parties with similar transaction price and terms under exact business circumstance with third parties. These transactions are presented as part of Revenues in the statements of comprehensive income (see Note 13). The outstanding receivables from these transactions are presented as part of Trade receivables under Trade and Other Receivables in the statements of financial position (see Note 6).

18.5 Key Management Personnel Compensation

In 2019, the total key management personnel compensation which includes short-term and post-employment benefits amounted to ₱8.1 million. There was no outstanding balance as of September 30, 2019. The Company has no expenses recognized for key management compensation in 2018 since its key management functions are being handled by the parent company at no cost to the Company.

19. Equity

19.1 Capital Stock

The details of the Company's capital stocks as of September 30, 2019 and December 31, 2018 are as follows:

	Unaudited Sept 30, 2019		Audited Dec 31, 2018	
	No. of Shares	Amount	No. of Shares	Amount
Authorized shares:				
Common	5,900,000,000	5,900,000,000	20,000,000	2,000,000,000
Preferred	1,000,000,000	100,000,000	—	—
Balance at the end of the period	<u>6,900,000,000</u>	<u>6,000,000,000</u>	<u>20,000,000</u>	<u>2,000,000,000</u>
Issued and outstanding shares:				
Common - Par value of P1 per share (2018: P100 per share)	3,000,000,000	3,000,000,000	20,000,000	2,000,000,000
Preferred	—	—	—	—
Balance at the end of the period	<u>3,000,000,000</u>	<u>3,000,000,000</u>	<u>20,000,000</u>	<u>2,000,000,000</u>

In 2018, the Company issued additional shares of stock for a total consideration of ₱660.0 million to existing stockholders. The shares of stock were subscribed and fully paid through the conversion of certain advances from related parties to equity (see Note 18.1).

On July 8, 2019, the SEC approved the Company's application for the increase of authorized capital stock from ₱2.0 billion to ₱6.0 billion divided into 5,900,000,000 common shares with par value of ₱1.00 per common share and 1,000,000,000 preferred shares with par value of ₱0.10 per preferred share. On the same date, the Company issued 1,000,000,000 common shares for the payment of certain advances from related parties that were converted into equity and two common shares for a consideration of ₱2.00 to independent directors.

19.2 Dividend Declaration

The Company's BOD approved the declaration of cash dividends amounting to ₱25.6 million on May 28, 2019, payable to stockholders of record on June 14, 2019. The cash dividends were paid on June 28, 2019. There was no dividend declaration in 2018.

20. EARNINGS PER SHARE

EPS were computed as follows:

	Unaudited Sept 30, 2019	Unaudited Sept 30, 2018
Net profit	<u>₱746,190,288</u>	<u>₱229,661,198</u>
Divided by weighted average number of outstanding common shares	<u>2,303,703,704</u>	<u>13,400,000</u>
Basic and diluted EPS	<u>₱0.32</u>	<u>₱17.14</u>

The Company has no potential dilutive common shares as of September 30, 2019 and 2018.

21. COMMITMENTS AND CONTINGENCIES

The significant commitments and contingencies involving the Company are presented

21.1 Lease Commitments – Company as Lessee

The Company entered into a non-cancellable operating leases with related parties under common ownership and third parties covering its various store outlets and warehouse facilities (see Notes 12 and 18). The future minimum lease payments under these non-cancellable leases as of December 31, 2018 are as follows:

Within one year	₱543,140,463
After one year but not more than five years	706,698,950
More than five years	493,905,384
	<u>₱1,743,744,797</u>

The total rental expense recognized from variable leases payments amounted to ₱95.1 million in 2019 while rental expense recognized from operating leases amounted to ₱327.8 million in 2018, and are presented as Rentals under Other Operating Expenses in the statements of comprehensive income (see Note 14.2).

Variable lease payments expensed on the basis that they are not recognized as a lease liability include rentals based on a certain percentage of revenue. Variable lease payments are expensed in the period they are incurred.

21.2 Others

There are other commitments, guarantees and contingent liabilities that may arise in the normal course of operations of the Company which are not reflected in the financial statements. As of September 30, 2019 and December 31, 2018, management is of the opinion that losses, if any, from these items will not have any material effect on the Company's financial statements, taken as a whole.

22. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company is exposed to a variety of operational and financial risks in relation to financial instruments. The Company's risk management is coordinated with its parent company, in close cooperation with the Company's BOD.

The Company does not normally engage in the trading of financial assets for speculative purposes nor does it write options. The most significant operational and financial risks to which the Company is exposed to are described below.

22.1 Interest Rate Risk

The Company's policy is to minimize interest rate cash flow risk exposures on long-term financing. The Company is exposed to changes in market interest rates through its cash in banks, which are subject to variable interest rates. However, due to its short-duration, management believes that the interest rate sensitivity and its effect on the net result for the period and equity are not significant (see Note 5).

On the other hand, the Company's long-term bank loans are currently subject to fixed rates ranging from 6.25% to 6.69% per annum both in 2019 and 2018 (see Note 11). Accordingly, management assessed that the Company is currently not significantly exposed to changes in market interest rates for its bank borrowings in 2019 and 2018.

22.2 Credit Risk

Credit risk is the risk that counterparty may fail to discharge an obligation to the Company. The Company is exposed to this risk for various financial instruments, for example by granting receivables to customers and related parties, and placing deposits.

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

Generally, 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 in the detailed analysis provided in the notes to the financial statements, as summarized below.

	Notes	Unaudited Sept 30, 2019	Unaudited Dec 31, 2018
Cash	5	₱257,062,271	₱298,492,381
Trade and other receivables	6	188,992,524	1,196,386,397
Due from related parties	18	—	133,913,000
		₱446,054,795	₱1,628,791,778

Except for cash in banks, none of the Company's financial assets are secured by collateral or other credit enhancements.

(a) Cash

The credit risk for cash is considered negligible since the counterparties are reputable banks with high quality external credit ratings. Included in the cash are cash in banks which are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of ₱0.5 million for every depositor per banking institution.

(b) Trade and Other Receivables

The Company applies the PFRS 9 simplified approach in measuring ECL which uses a lifetime expected loss allowance for all trade and other receivables.

The expected loss rates on trade receivables are based on the payment profiles of sales over a period of 36 months before September 30, 2019 and 2018, and the corresponding historical actual default losses experienced within such period. The amount of impairment loss recognized based on the historical actual default losses experienced of the Company amounted to ₱13.0 million and ₱14.5 million, respectively.

The Company identifies a default when the receivables become credit-impaired or when the customer is not able to settle the receivables within the normal credit terms of 30 to 60 days, depending on the terms with customers; hence, these receivables were already considered as past due on its contractual payment. In addition, the Company considers qualitative assessment in determining default such as in instances where the customer is unlikely to pay its obligations and is deemed to be in significant financial difficulty.

(c) *Due from Related Parties*

ECL for advances to related parties are measured and recognized using the liquidity approach. Management determines possible impairment based on the related party's ability to repay the advances upon demand at the reporting date taking into consideration the historical defaults from the related parties. Management assessed that the outstanding receivables from related parties as of September 30, 2019 and December 31, 2018 are recoverable since these related parties have the capacity to pay the advances upon demand. Accordingly, no impairment losses were recognized as of the end of the reporting periods.

22.3 *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.

The Company maintains cash to meet its liquidity requirements for up to 30-day periods. Excess cash are invested in short-term placements. 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 September 30, 2019, the Company's financial liabilities have contractual maturities which are summarized below:

	Notes	Current		Non-current	
		Upon demand/Within Six Months	Six to 12 Months	One to Three Years	Later than Three Years
Trade and other payable	10	₱1,403,011,297	₱—	₱—	₱—
Loans and borrowings	11	1,664,615,385	1,821,300,000	—	1,992,307,692
Lease liability	12	161,688,184	168,887,426	1,098,803,386	2,950,105,267
Due to related parties	18	—	—	—	—
		<u>₱3,229,314,866</u>	<u>₱1,990,187,426</u>	<u>₱1,098,803,386</u>	<u>₱4,942,412,959</u>

This compares to the contractual maturities of the Company's financial liabilities as of December 31, 2018 as follows:

	Notes	Current		Non-current	
		Upon demand/Within Six Months	Six to 12 Months	One to Three Years	Later than Three Years
Trade and other payable	10	₱343,651,438	₱13,122,281	₱—	₱—
Loans and borrowings	11	839,137,959	839,137,959	2,269,230,769	846,153,846
Lease liability	12	—	—	—	—
Due to related parties	18	627,352,292	—	—	—
		<u>₱1,810,141,689</u>	<u>₱852,260,240</u>	<u>₱2,269,230,769</u>	<u>₱846,153,846</u>

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

23. CATEGORIES AND FAIR VALUE MEASUREMENTS

23.1 Carrying Amounts and Fair Values Category

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

		Unaudited Sept 30, 2019		Audited Dec 31, 2018	
	Notes	Carrying Amounts	Fair Values	Carrying Amounts	Fair Values
Financial assets					
At amortized cost:					
Cash	5	P 257,062,271	P 257,062,271	P 298,492,381	P 298,492,381
Trade and other receivables	6	188,992,524	188,992,524	1,196,386,397	1,196,386,397
Due from related parties	18	-	-	133,913,000	133,913,000
		<u>P 446,054,795</u>	<u>P 446,054,795</u>	<u>P 1,628,791,778</u>	<u>P 1,628,791,778</u>
Financial liabilities					
Financial liabilities at amortized cost:					
Trade and other payables	10	P1,403,011,297	P1,403,011,297	P 356,773,719	P 356,773,719
Loans payable	11	5,478,223,077	5,478,223,077	4,315,384,615	4,315,384,615
Lease liability	12	4,379,484,263	4,379,484,263	-	-
Due to related parties	18	-	-	627,352,292	627,352,292
		<u>P11,260,718,637</u>	<u>P11,260,718,637</u>	<u>P 5,299,510,626</u>	<u>P 5,299,510,626</u>

Management considers that the carrying values of the above financial assets and financial liabilities, measured at amortized costs, approximate their fair values either because these instruments are short-term in nature or the effect of discounting for those with maturities of more than one year is not material.

See Notes 2.3 and 2.7 for a description of the accounting policies for each category of financial instrument. A description of the Company's risk management objectives and policies for financial instruments is provided in Note 22.

23.2 Fair Value Hierarchy

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and liabilities and non-financial assets 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:

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

The level within which the 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.

There are no financial assets and financial liabilities measured at fair value as of September 30, 2019 and December 31, 2018. Neither was there transfers among fair value levels in those years.

24. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Company's capital management objective is to ensure the Company's ability to continue as a going concern entity. Essentially, the Company, in coordination with its parent company, monitors capital on the basis of the carrying amount of equity as presented in the statements of financial position.

The Company manages the capital structure and makes adjustments to consider changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

The Company monitors capital on the ratios on its covenants with certain financial institutions. Capital for the reporting periods is summarized as follows:

	Unaudited Sept 30, 2019	Audited Dec 31, 2018
Total loans payable	₱5,478,223,077	₱4,315,384,615
Total equity	4,181,962,558	2,678,603,864
Debt-to-equity ratio	1.31 : 1.00	1.61 : 1:00

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of operations covering 9-month of 2019 vs. 9-month of 2018

Revenues

The company recorded revenues of ₱8,183 million for the nine months ended 30 September 2019, an increase of 72% from ₱4,770 million for the nine months ended 30 September 2018. This was mainly brought about by the same store sales growth of existing 21 stores as of 30 September 2018 as well as the revenues generated from six additional stores launched since then until 30 September 2019.

The following tables shows the key operating performance indicators relevant to the revenues for the period ended 30 September 2018 and 2019:

	As of and for the period ended 30 September		Percentage Change
	2019	2018	
Number of stores	27	21	28.6%
Net Selling Area (in sqms)	221,994	167,578	28.9%
Net Sales (₱ millions)	8,183	4,770	71.6%
SSSG	18.9%	32.3%	70.9%

Costs of Goods Sold

For the nine months ended 30 September 2019, cost of goods sold was at ₱5,750 million, an increase of 71% from the ₱3,370 million level for the same period in 2018 corresponding to the increase in sales in existing stores and the sales contributed by the six new stores added during the period.

Operating Expenses

Operating expenses increased by 15% to ₱1,303 million for the nine months ended 30 September 2019 from ₱1,137 million for the same period in 2018, primarily due to the following:

- Increase in depreciation and amortization from ₱124 million for the nine months ended 30 September 2018 to ₱467 million for the nine months ended 30 September 2019 primarily as a result of the adoption of PFRS 16 and due to the increase in the number of stores.
- Increase in salaries and wages from ₱122 million for the nine months ended 30 September 2018 to ₱197 million for the nine months ended 30 September 2019 due to the additional manpower for new stores, and increased headcount for Finance, Merchandising and IT personnel. There were also contracted personnel previously recorded under Outside Services that were converted into organic employees.
- Decrease in communication and utilities from ₱150 million for the nine months ended 30 September 2018 to ₱135 million for the nine months ended 30 September 2019 attributable to the lessor's switch to retail electricity supply, which generated savings in utilities expense. These savings were correspondingly passed on to the lessees, such as the company.
- Decrease in rentals from ₱328 million for the nine months ended 30 September 2018 to ₱95 million for the nine months ended 30 September 2019 primarily due to adoption of PFRS 16, net of increase due to new stores.

- Increase in merchant fees from ₱59 million for the nine months ended 30 September 2018 to ₱76 million for the nine months ended 30 September 2019 due to increase in revenues.
- Increase in taxes and licenses from ₱33 million for the nine months ended 30 September 2018 to ₱43 million for the nine months ended 30 September 2019 due to increase in number of stores as well as the increase in revenues.
- Decrease in Impairment Loss from ₱15 million for the nine months ended 30 September 2018 to ₱13 million for the nine months ended 30 September 2019 due to improved collection of trade receivables.
- Decrease in advertising and promotions from ₱36 million for the nine months ended 30 September 2018 to ₱24 million for the nine months ended 30 September 2019 on account of savings generated by replacing conventional marketing tools with online marketing platforms.
- Decrease in dues and subscription from ₱28 million for the nine months ended 30 September 2018 to ₱10 million for the nine months ended 30 September 2019 due to one-time IT systems payment made in 2018.
- Increase in professional fees from ₱2 million for the nine months ended 30 September 2018 to ₱9 million for the nine months ended 30 September 2019 for the audit fees paid on the first half of 2019.

Finance Cost

Finance Cost increased by 614% from ₱44 million for the nine months ended 30 September 2018 to ₱318 million for the nine months ended 30 September 2019. The increase was primarily attributable to the adoption of PFRS 16 amounting to ₱195 million, the increase in short-term and long-term interest-bearing debt of the Company for the year to finance store expansion, and recognition of retirement benefit obligation.

Other Income

Other income increased by 131% from ₱110 million for the nine months ended 30 September 2018 to ₱253 million for the nine months ended 30 September 2019. The increase was primarily attributable to the following:

- Increase in delivery fees and gondola rental of 81% from ₱32 million for the nine months ended 30 September 2018 to ₱41 million for the nine months ended 30 September 2019, driven by the higher earnings from such services.

Provision for Income Tax

Provision for income tax increased by 226% from ₱98 million for the nine months ended 30 September 2018 to ₱321 million for the nine months ended 30 September 2019 primarily due to a higher taxable base for the year.

Net Profit

As a result of the foregoing, our net income increased by 225% from ₱230 million for the nine months ended 30 September 2018 to ₱746 million for the nine months ended 30 September 2019.

For the 9-month of 2019, there was no seasonal aspect that had a material effect on the financial condition or results of operations of the Company. Neither were there any trends, events or uncertainties that have

had or that are reasonably expected to have a material impact on the net sales or revenues or income from continuing operations. The Company is not aware of events that will cause a material change in the relationship between the costs and revenues.

There are no significant elements of income or loss that did not arise from the Company's continuing operations.

FINANCIAL CONDITION

As of 30 September 2019 vs. 31 December 31 2018

Total assets as of 30 September 2019 were ₱15,707 million compared to ₱8,215 million as of 31 December 2018, or a 91% increase due to the following:

- Cash decreased by 14% from ₱298 million as of 31 December 2018 to ₱257 million as of 30 September 2019 primarily due to higher cash outflow for the period used for fit-outs and inventory purchases for existing and new stores.
- Trade and other receivables decreased by 84% from ₱1,196 million as of 31 December 2018 to ₱189 million as of 30 September 2019 due mainly to the collections during the period.
- Inventories increased by 78% from ₱2,691 million as of 31 December 2018 to ₱4,775 million as of 30 September 2019 due primarily to the purchases for new stores for the second half of the year.
- Due from related parties decreased from ₱134 million as of 31 December 2018 to nil as of 30 September 2019 due to settlement during the period.
- Property and equipment increased by 215% from ₱2,969 million as of 31 December 2018 to ₱9,359 million as of 30 September 2019 due primarily to acquisitions of store equipment, furniture, fixture, office equipment and leasehold improvements as well as the recognition of the right of use asset in relation to the adoption of PFRS 16.
- Other assets including non-current portion increased by 22% from ₱926 million as of 31 December 2018 to ₱1,126 million as of 30 September 2019 due primarily to the increase in advances for suppliers. Advances for suppliers pertains to mobilization of funds made to various third-party contractors for fit-outs.

Total liabilities as of 30 September 2019 were ₱11,531 million compared to ₱5,537 million as of 31 December 2018, or a 108% increase. This was due to the following:

- Trade and other payables increased by 269% to ₱1,403 million as of 30 September 2019 from ₱380 million as of 31 December 2018 due to increase in trade payables pertaining to purchases of inventories and new stores fit-out construction.
- Loans payable including non-current portion increased by 27% from ₱4,315 million as of 31 December 2018 to ₱5,478 million as of 30 September 2019 due to loan availments for the period.
- Lease liability including non-current portion increased from nil as of 31 December 2018 to ₱4,379 million as of 30 September 2019 due to recognition of lease liability in relation to the adoption of PFRS 16.
- Due to related parties decreased to nil as of 30 September 2019 from ₱627 million as of 31 December 2018 due to conversion to equity in July 2019.

- Income tax payable decreased by 52% from ₱68 million as of 31 December 2018 to ₱104 million as of 30 September 2019 due primarily to increased tax payable for the period.
- Deferred tax liabilities decreased by 11% from ₱146 million as of December 31, 2018 to ₱130 million as of 30 September 2019 due to the adjustments to temporary tax differences for the period.
- Retirement benefit obligation increased from nil as of 31 December 2018 to ₱31 million as of 30 September 2019 due to set-up of provision for the retirement benefit.

Total stockholder's equity increased by 73% from ₱2,679 million as of 31 December 2018 to ₱4,175 million as of 30 September 2019 due to the conversion of advances from parent and net income recorded for the period.

Considered as the top five key performance indicators of the Company as shown below:

Key Performance Indicators	09/30/2019	09/30/2018
Revenues (₱ millions)	₱8,183	₱4,770
Gross Profit (₱ millions)	2,433	1,400
Gross Profit Margin (%) ^(a)	29.7%	29.4%
Net Profit (₱ millions)	746	230
Net Profit Margin (%) ^(b)	9.1%	4.8%

Notes:

(a) Gross Profit Margin: This ratio is obtained by dividing the Gross Profit of the Company by its Revenues

(b) Net Profit Margin: This ratio is obtained by dividing the Net Profit of the Company by its Revenues

Because there are various calculation methods for the performance indicators above, the Company's presentation of such may not be comparable to similarly titled measures used by other companies.

Revenues increased for the period ended 30 September 2019 compared to period ended 30 September 2018 due to same store sales growth of existing stores and the revenue contribution of the new stores.

Gross Profit and Gross Profit Margin increased for the period ended 30 September 2019 compared to period ended 30 September 2018 due to economies of scale achieved as a result of higher purchased made during the period.

Net Profit and Net Profit Margin increased for the period ended 30 September 2019 compared to period ended 30 September 2018 due to improved revenues, gross profit, and other income.

Material Changes to the Company's Balance Sheet as of 30 September 2019 compared to 31 December 2018 (increase/decrease of 5% or more)

Cash decreased by 14% from ₱298 million as of 31 December 2018 to ₱257 million as of 30 September 2019 primarily due to higher cash outflow for the period used for fit-outs and inventory purchases for existing and new stores.

Trade and other receivables decreased by 84% from ₱1,196 million as of 31 December 2018 to ₱189 million as of 30 September 2019 due mainly to the collections during the period.

Inventories increased by 77% from ₱2,691 million as of 31 December 2018 to ₱4,775 million as of 30 September 2019 due primarily to the purchases for new stores for the second half of the year.

Due from related parties decreased from ₱134 million as of 31 December 2018 to nil as of 30 September 2019 due to settlement during the period.

Property and equipment increased by 215% from ₱2,969 million as of 31 December 2018 to ₱9,359 million as of 30 September 2019 due primarily to acquisitions of store equipment, furniture, fixture, office equipment and leasehold improvements as well as the recognition of the right of use asset in relation to the adoption of PFRS 16.

Other assets increased by 22% from ₱926.3 million as of 31 December 2018 to ₱1,126 million as of 30 September 2019 due primarily to the increase in advances for suppliers. Advances for suppliers pertains to mobilization of funds made to various third-party contractors for fit-outs.

Trade and other payables increased by 269% to ₱1,403 million as of 30 September 2019 from ₱380 million as of 31 December 2018 due to increase in trade payables pertaining to purchases of inventories and new stores fit-out construction.

Loans payable including non-current portion increased by 27% from ₱4,315 million as of 31 December 2018 to ₱5,478 million as of 30 September 2019 due to loan availments for the period.

Lease liability including non-current portion increased from nil as of 31 December 2018 to ₱4,379 million as of 30 September 2019 due to recognition of lease liability in relation to the adoption of PFRS 16.

Due to related parties decreased to nil as of 30 September 2019 from ₱627 million as of 31 December 2018 due to conversion to equity in July 2019.

Income tax payable decreased by 52% from ₱68 million as of 31 December 2018 to ₱104 million as of 30 September 2019 due primarily to increased tax payable for the period.

Deferred tax liabilities decreased by 11% from ₱146 million as of December 31, 2018 to ₱130 million as of 30 September 2019 due to the adjustments to temporary tax differences for the period.

Retirement benefit obligation increased from nil as of 31 December 2018 to ₱31 million as of 30 September 2019 due to set-up of provision for the retirement benefit.

Material Changes to the Company's Statement of income for the 9-month of 2019 compared to the 9-month of 2018 (increase/decrease of 5% or more)

Revenues increased by 72% to ₱8,183 million for the nine months ended 30 September 2019 from ₱4,770 million for the nine months ended 30 September 2018. This was mainly brought about by the same store sales growth of existing 21 stores as of 30 September 2018 as well as the revenues generated from six additional stores launched since then until 30 September 2019

Cost of goods sold increased by 71% to ₱5,750 million for the nine months ended 30 September 2019 from the ₱3,370 million level for the same period in 2018, corresponding to the increase in sales in existing stores and the sales contributed by the six new stores added during the period.

Operating expenses increased by 15% to ₱1,303 million for the nine months ended 30 September 2019 from ₱1,137 million for the same period in 2018, primarily due to the increase in depreciation and amortization, salaries and wages, merchant fees, taxes and licenses, professional fees and miscellaneous expense.

Finance Cost increased by 614% from ₱44 million for the nine months ended 30 September 2018 to ₱318 million for the nine months ended 30 September 2019. The increase was primarily attributable to the adoption of PFRS 16 amounting to ₱195 million, the increase in short-term and long-term interest-bearing debt of the Company for the year to finance store expansion, and recognition of defined benefit post-employment plan.

Other income increased by 131% from ₱110 million for the nine months ended 30 September 2018 to ₱253 million for the nine months ended 30 September 2019. The increase was primarily attributable to the increase in vendor's support and marketing fees, and miscellaneous income.

Provision for income tax increased by 226% from ₱98 million for the nine months ended 30 September 2018 to ₱321 million for the nine months ended 30 September 2019 primarily due to a higher taxable base for the year.

As a result of the foregoing, our net income increased by 225% from ₱230 million for the nine months ended 30 September 2018 to ₱746 million for the nine months ended 30 September 2019.

There is no other material change in the Company's financial position (changes of 5% or more) and condition that will warrant a more detailed discussion. Further, there is no material event and uncertainty known to management that would impact or change reported financial information and condition on the Company.

COMMITMENTS AND CONTINGENCIES

There is no material commitment and contingency as of 30 September 2019 and as of 30 September 2018.

PART II - OTHER INFORMATION

Item 3. 9-month of 2019 Developments

- A.** New Projects or Investments in another line of business or corporation.

None

B. Composition of Board of Directors

Manuel B. Villar, Jr.	Chairman of the Board
Camille A. Villar	Vice Chairman of the Board
Benjamarie Therese N. Serrano	Director and President
Frances Rosalie T. Coloma	Director and Treasurer
Manuel Paolo A. Villar	Director
Laura Suarez Acuzar	Independent Director
Jessie D. Cabaluna	Independent Director

C. Performance of the corporation or result/progress of operations.

Please see unaudited Financial Statements and Management's Discussion and Analysis.

D. Declaration of Dividends.

P1.2785 per share Regular Cash Dividend

Declaration Date: May 28, 2019

Record date: June 14, 2019

Payment date: June 28, 2019

E. Contracts of merger, consolidation or joint venture; contract of management, licensing, marketing, distributorship, technical assistance or similar agreements.

None.

F. Offering of rights, granting of Stock Options and corresponding plans thereof.

None.

G. Acquisition of additional mining claims or other capital assets or patents, formula, real estate.

Not Applicable.

H. Other information, material events or happenings that may have affected or may affect market price of security.

None.

Transferring of assets, except in normal course of business.

None.

Item 4. Other Notes as of 9-month of 2019 Operations and Financials.

I. Nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that is unusual because of their nature, size, or incidents.

None.

- J.** Nature and amount of changes in estimates of amounts reported in prior periods and their material effect in the current period.

There were no changes in estimates of amounts reported in prior interim period or prior financial years that have a material effect in the current interim period.

- K.** New financing through loans/ issuances, repurchases and repayments of debt and equity securities.

See Notes to Financial Statements and Management Discussion and Analysis.

- L.** Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period.

See Notes to Financial Statements and Management Discussion and Analysis.

- M.** The effect of changes in the composition of the issuer during the interim period including business combinations, acquisition or disposal of subsidiaries and long term investments, restructurings, and discontinuing operations.

None.

- N.** Changes in contingent liabilities or contingent assets since the last annual statement of financial position date.

None.

- O.** Existence of material contingencies and other material events or transactions during the interim period

None.

- P.** Events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.

None.

- Q.** Material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period.

None.

- R.** Material commitments for capital expenditures, general purpose and expected sources of funds.

Material commitments for capital expenditures contracted were attributed to the store fixtures and equipment being put up for the upcoming new stores.

- S.** Known trends, events or uncertainties that have had or that are reasonably expected to have impact on sales/revenues/income from continuing operations.

As of September 30, 2019, no known trends, events or uncertainties that are reasonably expected to have impact on sales/revenues/income from continuing operations except for those being disclosed in the 9-month of 2019 financial statements.

T. Significant elements of income or loss that did not arise from continuing operations.

None.

U. Causes for any material change/s from period to period in one or more line items of the financial statements.

None.

V. Seasonal aspects that had material effect on the financial condition or results of operations.

None.

W. Disclosures not made under SEC Form 17-C.

None.

SIGNATURES

Pursuant to the requirements of Section 17 of the SRC and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized.

AllHome Corp.
Issuer

By:


FRANCES ROSALIE T. COLOMA
Chief Financial Officer

Date: November 14, 2019