SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-C

CURRENT REPORT UNDER SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17.2(c) THEREUNDER

1. Date of Report (Date of earliest event reported)
   Mar 22, 2024
2. SEC Identification Number
   AS95003836
3. BIR Tax Identification No.
   004-780-008-000
4. Exact name of issuer as specified in its charter
   Upson International Corp.
5. Province, country or other jurisdiction of incorporation
   Metro Manila, Philippines
6. Industry Classification Code(SEC Use Only)

7. Address of principal office
   Unit 2308, 23/F Capital House Tower 1, 9th Avenue corner 34th Street, Bonifacio Global City, Taguig City
   Postal Code
   1635
8. Issuer's telephone number, including area code
   +632 8526 7152
9. Former name or former address, if changed since last report
   -
10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common Shares	3,125,001,300

11. Indicate the item numbers reported herein
    Please refer to the attached Letter to the SEC and the PSE.

Upson International Corp.
UPSON

PSE Disclosure Form 4-30 - Material Information/Transactions
References: SRC Rule 17 (SEC Form 17-C) and
Sections 4.1 and 4.4 of the Revised Disclosure Rules

Subject of the Disclosure
Audited Financial Statements for the period ended December 31, 2023
Background/Description of the Disclosure
We are submitting herewith the attached Audited Financial Statements of Upson International Corp. for the period ended December 31, 2023.
Other Relevant Information
-

Filed on behalf by:

Name	Arlene Louisa Sy
Designation	Chief Executive Officer

COVER SHEET

AS95003836

S.E.C. Registration Number

UPSON INTERNATIONAL CORP. DOING BUSINESS UNDER THE NAME AND STYLE OF OCTAGON COMPUTER SUPERSTORE; MICROVALLEY COMPUTER SUPERSTORE; GADGET WORLD; OCTAGON MOBILE; UNISO; GADGET KING; AND LAMP LIGHT

(Company's Full Name)

UNIT 2308, 23/F CAPITAL HOUSE TOWER 1, 9TH AVENUE COR. 34TH STREET, BONIFACIO GLOBAL CITY, TAGUIG CITY

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

Dennis F. Uy
Contact Person

8526-7152
Company Telephone Number

12 31
Month *Day*
Fiscal Year

17-C
FORM TYPE

05 25
Month *Day*
Annual Meeting

Not applicable
Secondary License Type, If Applicable

MSRD
Dept. Requiring this Doc.

Not applicable
Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-C

CURRENT REPORT UNDER SECTION 17
OF THE SECURITIES REGULATION CODE
AND SRC RULE 17.2(c) THEREUNDER

1. **March 22, 2024**
   Date of Report (Date of earliest event reported)

2. SEC Identification Number **AS95003836**   3. BIR Tax Identification No. **004-780-008-000**

4. **UPSON INTERNATIONAL CORP.**
   doing business under the name and style of OCTAGON COMPUTER SUPERSTORE; MICROVALLEY COMPUTER SUPERSTORE; GADGET WORLD; OCTAGON MOBILE; UNISO; GADGET KING AND LAMP LIGHT
   Exact name of issuer as specified in its charter

5. **Metro Manila, Philippines**
   Province, country or other jurisdiction of incorporation

   (SEC Use Only)
   Industry Classification Code:

7. **Unit 2308, 23/F Capital House Tower 1, 9th Avenue cor. 34th Street, Bonifacio Global City, Taguig City**
   Address of principal office

   1635
   Postal Code

8. **(+63 2) 8526 7152**
   Issuer's telephone number, including area code

9. **Not applicable**
   Former name or former address, if changed since last report

10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common Shares	**3,125,001,300**

11. Indicate the item numbers reported herein:

Please refer to the attached Letter to the Securities and Exchange Commission and the Philippine Stock Exchange, Inc.

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Upson International Corp.	**March 22, 2024**
Issuer	Date

Marcos A. Legaspi
Chief Finance Officer

Arlene Louisa T. Sy
Chief Executive Officer
and President

UPSON International Corp.

March 22, 2024

Securities and Exchange Commission
7907 Makati Avenue, Salcedo Village,
Bel-Air, Makati City, 1209

Attention : **Dir. Oliver O. Leonardo**
Markets and Securities Regulation Department

Philippine Stock Exchange, Inc.
PSE Tower, 5th Avenue cor. 28th Street,
Bonifacio Global City, Taguig City 1634

Attention : **Ms. France Alexandra D. Tom Wong**
Disclosure Department

Subject : **Audited Financial Statements for the period ended December 31, 2023**

Gentlemen :

We are submitting herewith the attached Audited Financial Statements of Upson International Corp. for the period ended December 31, 2023.

We hope you find everything in order.

Thank you.

Very truly yours,

Marcos A. Legaspi
Chief Finance Officer

Arlene Louisa T. Sy
Chief Executive Officer
and President

C O V E R   S H E E T
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

A S 9 5 0 0 3 8 3 6

COMPANY NAME

Upson International Corp. (Doing Business Under the Name and Style of Octagon Computer Superstore; Microvalley Computer Superstore; Gadget World; Octagon Mobile; Uniso; Gadget King and Lamp Light)

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

Unit 2308, 23/F Capital House Tower 1, 9th Avenue corner 34th Street, Bonifacio Global City, Taguig City

Form Type	Department requiring the report	Secondary License Type, If Applicable
AAFS	CRMD	N/A

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number/s	Mobile Number
d_uy@octagon.com.ph	(02) 8 526-7152	0920 960 9377

No. of Stockholders	Annual Meeting (Month / Day)	Calendar Year (Month / Day)
10	May 25	December 31

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Ms. Anita Lim	a_lim@octagon.com.ph	(02) 8 526-7152	–

CONTACT PERSON'S ADDRESS

Unit 2308, 23/F Capital House Tower 1, 9th Avenue corner 34th Street, Bonifacio Global City, Taguig City

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

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

UPSON International Corp.

STATEMENT OF MANAGEMENT'S RESPONSIBIILITY
FOR FINANCIAL STATEMENTS

The management of **UPSON International Corp.** (the Company) is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, as at December 31, 2023 and 2022 and for the years ended December 31, 2023, 2022 and 2021 in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the financial statements including the schedules attached therein and submits the same to the stockholders.

Reyes Tacandong & Co., the independent auditors appointed by the stockholders, have audited the financial statements of the Company in accordance with Philippine Standards on Auditing, and in their reports to the stockholders, have expressed their opinion on the fairness of presentation upon completion of such audit.

Lawrence Ong Lee
Chairman of the Board

Arlene Louisa T. Sy
President and Chief Executive Officer

Marcos A. Legaspi
Chief Financial Officer

Signed this 28th day of February 2024

SUBSCRIBED AND SWORN TO BEFORE ME
This 13 day of MAR 2024 at manila, Philippines

DOC NO.
PAGE NO.
BOOK NO.
SERIES OF 2024

RAUL JOHN Y. TAÑEDO
NOTARY PUBLIC
UNTIL DECEMBER 31, 2025
PTR NO. 2510325 / 01-23-24 QUEZON CITY
IBP LIFETIME NO. 02678 RSM / ROLL NO. 40849
MCLE COMPLIANCE NO. VII-0013142 / VALID UNTIL 04.14.2025

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Upson International Corp.
Unit 2308, 23/F Capital House Tower 1
9th Avenue corner 34th Street
Bonifacio Global City, Taguig City

Opinion

We have audited the accompanying financial statements of Upson International Corp. (Doing Business Under the Name and Style of Octagon Computer Superstore; Microvalley Computer Superstore; Gadget World; Octagon Mobile; Uniso; Gadget King and Lamp Light) (the Company), which comprise the statements of financial position as at December 31, 2023 and 2022, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years ended December 31, 2023, 2022 and 2021, and notes to the financial statements, including a summary of material accounting policy information.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2023 and 2022, and its financial performance and its cash flows for the years ended December 31, 2023, 2022 and 2021 in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Accounting for Completeness and Valuation of Inventories

Inventories, net of allowance for inventory write down and losses, amounted to ₱3,350.8 million as at December 31, 2023. The accounting for the completeness and valuation of inventories is significant to our audit because inventories represent 54% of the total assets. Due to the significant amount, voluminous inventory items and fast-moving nature of the inventories, establishing the existence and completeness, and determining the proper valuation of inventories require extensive monitoring, and high degree of management judgment and estimation.

Our procedures included, among others, the review of the design and implementation of key controls on inventory management, the observation of the conduct of the inventory count, test of inventory summarization, review and test of inventory costing, and the determination of the lower of cost or net realizable value of inventories.

Necessary disclosures are included in Note 3, *Significant Judgments, Accounting Estimates and Assumptions,* and Note 6, *Inventories.*

Accounting for the Use of the Proceeds from the Initial Public Offering (IPO)

The shares of stock of the Company were listed with the Philippine Stock Exchange, Inc. on April 3, 2023. The net proceeds from the IPO amounted to ₱1,401.8 million, net of offer expenses of ₱98.2 million. The accounting for the use of the proceeds is significant to our audit because the unapplied proceeds of ₱983.0 million, which are maintained in the Company's cash in bank and cash equivalents, represent 16% of the total assets as at December 31, 2023. The Company is also required to adhere to the use of the proceeds as disclosed in the Offering Circular.

Our procedures included, among others, obtaining confirmation from the banks and examining the underlying documents to substantiate the cash in bank and cash equivalents, and checking the nature and validating the underlying documents supporting the actual disbursements of the IPO proceeds.

Necessary disclosures are included in Note 1, *Corporate Information* and Note 11, *Equity*.

Accounting for the Recognition and Measurement of Right-of-Use (ROU) Assets and Lease Liabilities

ROU assets and lease liabilities amounted to ₱275.4 million and ₱275.2 million as at December 31, 2023, respectively. The accounting for the recognition and measurement of ROU assets and lease liabilities are significant to our audit because there were significant additions in 2023 amounting to ₱232.9 million and ₱230.8 million for ROU assets and lease liabilities, respectively, arising from the Company's ongoing store network expansion. In addition, the recognition and measurement of ROU assets and lease liabilities involves the exercise of significant management judgment and estimate that include, among others, (a) assessing whether a contract contains a lease; (b) determining the lease term taking into consideration the renewal options; and (c) determining the appropriate discount rate.

Our procedures included, among others, the review of new and amended lease agreements to assess whether the arrangement contains a lease to be recognized as additional or remeasurement of ROU assets and lease liabilities, and the compliance of the Company with the required disclosures in the financial statements. We assessed the reliability of the data used in the computation of ROU assets and lease liabilities through inspection of source documents. We assessed the reasonableness of incremental borrowing rates used if it approximates the rate that the Company would have to pay to borrow funds for the purchase of similar asset with similar term and security, and the future lease payments through inspection of source documents. On a test basis, we also performed the recalculation of the recognized ROU assets and lease liabilities and assessed the reasonableness of the related amortization and interest expense on ROU assets and lease liabilities, respectively.

Necessary disclosures are included in Note 2, *Summary of Material Accounting Policy Information,* Note 3, *Significant Judgments, Accounting Estimates and Assumptions* and Note 16, *Lease Commitments.*

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2023, but does not include the financial statements and our auditors' report thereon. The SEC Form 20-IS, SEC Form 17-A and Annual Report for the year ended December 31, 2023 are expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance or conclusion thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is Darryll Reese Q. Salangad.

REYES TACANDONG & CO.

DARRYLL REESE Q. SALANGAD
Partner
CPA Certificate No. 107615
Tax Identification No. 227-770-760-000
BOA Accreditation No. 4782; Valid until April 13, 2024
BIR Accreditation No. 08-005144-016-2022
Valid until May 15, 2025
PTR No. 10072422
Issued January 2, 2024, Makati City

February 28, 2024
Makati City, Metro Manila

UPSON INTERNATIONAL CORP.

(Doing Business Under the Name and Style of Octagon Computer Superstore; Microvalley Computer Superstore; Gadget World; Octagon Mobile; Uniso; Gadget King and Lamp Light)

STATEMENTS OF FINANCIAL POSITION

		December 31	
	Note	**2023**	2022
ASSETS			
Current Assets			
Cash and cash equivalents	4	**₱1,360,873,502**	₱801,412,803
Trade and other receivables	5	**181,057,704**	63,034,224
Inventories	6	**3,350,825,684**	2,666,559,469
Other current assets	7	**160,316,057**	156,807,491
Total Current Assets		**5,053,072,947**	3,687,813,987
Noncurrent Assets			
Property and equipment	8	**819,418,924**	689,495,330
Right-of-use (ROU) assets	16	**275,426,853**	251,313,980
Noncurrent portion of refundable lease deposits	7	**59,723,407**	40,143,243
Net deferred tax assets	17	**19,060,904**	20,397,056
Total Noncurrent Assets		**1,173,630,088**	1,001,349,609
		₱6,226,703,035	₱4,689,163,596
LIABILITIES AND EQUITY			
Current Liabilities			
Bank loans and trust receipts payable	10	**₱1,767,613,865**	₱1,734,644,813
Trade and other payables	9	**1,322,843,184**	1,535,686,751
Current portion of lease liabilities	16	**147,320,374**	154,972,049
Income tax payable		**17,175,989**	86,716,201
Total Current Liabilities		**3,254,953,412**	3,512,019,814
Noncurrent Liabilities			
Lease liabilities - net of current portion	16	**127,873,298**	95,638,729
Retirement liability	15	**41,870,993**	33,438,809
Total Noncurrent Liabilities		**169,744,291**	129,077,538
Total Liabilities		**3,424,697,703**	3,641,097,352
Equity			
Capital stock	11	**625,000,260**	500,000,060
Additional paid-in capital	11	**1,305,308,048**	–
Retained earnings	11	**878,511,729**	552,320,968
Accumulated remeasurement losses on retirement liability	15	**(6,814,705)**	(4,254,784)
Total Equity		**2,802,005,332**	1,048,066,244
		₱6,226,703,035	₱4,689,163,596

See accompanying Notes to Financial Statements.

UPSON INTERNATIONAL CORP.

(Doing Business Under the Name and Style of Octagon Computer Superstore; Microvalley Computer Superstore; Gadget World; Octagon Mobile; Uniso; Gadget King and Lamp Light)

STATEMENTS OF COMPREHENSIVE INCOME

		Years Ended December 31		
	Note	**2023**	2022	2021
NET SALES		**₱10,010,358,499**	₱9,461,981,130	₱8,567,941,202
COST OF SALES	6	**(7,932,978,469)**	(7,282,799,061)	(6,682,292,006)
GROSS INCOME		**2,077,380,030**	2,179,182,069	1,885,649,196
OPERATING EXPENSES	12	**(1,675,980,429)**	(1,530,103,748)	(1,322,687,810)
FINANCE COSTS	10	**(123,495,021)**	(74,147,403)	(116,263,266)
OTHER INCOME	13	**306,082,355**	142,074,344	90,852,948
INCOME BEFORE INCOME TAX		**583,986,935**	717,005,262	537,551,068
PROVISION FOR (BENEFIT FROM) INCOME TAX	17			
Current		**117,606,658**	184,132,156	112,615,259
Deferred		**2,189,459**	(4,982,875)	21,294,652
		119,796,117	179,149,281	133,909,911
NET INCOME		**464,190,818**	537,855,981	403,641,157
OTHER COMPREHENSIVE INCOME (LOSS)				
Not to be reclassified to profit or loss in subsequent periods				
Remeasurement gain (loss) on retirement liability - net of deferred income tax	15	**(2,559,921)**	1,990,447	(2,519,339)
TOTAL COMPREHENSIVE INCOME		**₱461,630,897**	₱539,846,428	₱401,121,818
BASIC/DILUTED EARNINGS PER SHARE	22	**₱0.16**	₱0.22	₱0.30

See accompanying Notes to Financial Statements.

UPSON INTERNATIONAL CORP.

(Doing Business Under the Name and Style of Octagon Computer Superstore; Microvalley Computer Superstore; Gadget World; Octagon Mobile; Uniso; Gadget King and Lamp Light)

STATEMENTS OF CHANGES IN EQUITY

		Years Ended December 31		
	Note	**2023**	2022	2021
CAPITAL STOCK	11			
Balance at beginning of year		**₱500,000,060**	₱500,000,000	₱267,500,000
Issuance		**125,000,200**	60	232,500,000
Balance at end of year		**625,000,260**	500,000,060	500,000,000
ADDITIONAL PAID-IN CAPITAL	11	**1,305,308,048**	–	–
RETAINED EARNINGS	11			
APPROPRIATED FOR CAPITAL EXPENDITURES		**78,000,000**	–	–
UNAPPROPRIATED				
Balance at beginning of year		**552,320,968**	404,464,987	307,823,830
Net income		**464,190,818**	537,855,981	403,641,157
Appropriation		**(78,000,000)**	–	–
Cash dividends		**(138,000,057)**	(390,000,000)	(307,000,000)
Balance at end of year		**800,511,729**	552,320,968	404,464,987
		878,511,729	552,320,968	404,464,987
ACCUMULATED REMEASUREMENT LOSSES ON RETIREMENT LIABILITY	15			
Balance at beginning of year		**(4,254,784)**	(6,245,231)	(3,477,499)
Remeasurement gain (loss) - net of deferred income tax		**(2,559,921)**	1,990,447	(2,519,339)
Effect of change in income tax rate		**–**	–	(248,393)
Balance at end of year		**(6,814,705)**	(4,254,784)	(6,245,231)
		₱2,802,005,332	₱1,048,066,244	₱898,219,756

See accompanying Notes to Financial Statements.

UPSON INTERNATIONAL CORP.
(Doing Business Under the Name and Style of Octagon Computer Superstore; Microvalley Computer Superstore; Gadget World; Octagon Mobile; Uniso; Gadget King and Lamp Light)

STATEMENTS OF CASH FLOWS

	Note	Years Ended December 31 **2023**	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		**₱583,986,935**	₱717,005,262	₱537,551,068
Adjustments for:				
Depreciation and amortization	8	**309,075,012**	280,830,339	303,334,752
Finance costs	10	**123,495,021**	74,147,403	116,263,266
Interest income	4	**(46,811,084)**	(544,189)	(710,294)
Retirement expense	15	**5,018,956**	4,281,720	3,273,667
Provision for (reversal of) inventory obsolescence	12	**2,916,376**	24,841,900	(7,346,324)
Gain on lease modification	16	**(102,070)**	–	(621,157)
Gain on lease concessions	16	**–**	(17,500,079)	(52,687,895)
Operating income before working capital changes		**977,579,146**	1,083,062,356	899,057,083
Decrease (increase) in:				
Trade and other receivables		**(108,765,398)**	(24,351,690)	51,885,978
Inventories		**(687,182,591)**	(684,127,133)	(520,227,512)
Other assets		**(25,182,984)**	(32,216,675)	(23,897,105)
Increase (decrease) in trade and other payables		**61,572,017**	(527,961,576)	607,294,769
Net cash generated from (used for) operations		**218,020,190**	(185,594,718)	1,014,113,213
Income taxes paid		**(187,146,870)**	(135,154,934)	(91,805,655)
Interest received		**37,553,002**	544,189	710,294
Net cash provided by (used in) operating activities		**68,426,322**	(320,205,463)	923,017,852
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to property and equipment	8	**(219,496,536)**	(109,233,206)	(58,818,497)
Decrease in advances to a related party		**–**	–	1,098,699,844
Net cash provided by (used in) investing activities		**(219,496,536)**	(109,233,206)	1,039,881,347
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from:				
Bank loans and trust receipts availments	10	**2,611,018,632**	2,870,048,222	2,854,817,472
Issuance of capital stock	11	**1,430,308,248**	60	232,500,000
Payments of:				
Bank loans and trust receipts	10	**(2,578,049,580)**	(2,381,838,159)	(4,093,501,174)
Lease liabilities	16	**(220,119,782)**	(180,629,861)	(126,213,919)
Interest		**(119,320,548)**	(62,825,209)	(103,552,641)
Dividends	21	**(413,306,057)**	(114,694,000)	(307,000,000)
Net cash provided by (used in) financing activities		**710,530,913**	130,061,053	(1,542,950,262)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**559,460,699**	(299,377,616)	419,948,937
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**801,412,803**	1,100,790,419	680,841,482
CASH AND CASH EQUIVALENTS AT END OF YEAR	4	**₱1,360,873,502**	₱801,412,803	₱1,100,790,419

		Years Ended December 31		
	Note	**2023**	2022	2021
NONCASH FINANCIAL INFORMATION				
Additions and modifications to ROU assets	16	**(₱232,540,827)**	(₱276,001,099)	(₱198,491,372)
Additions and modifications to lease liabilities	16	**230,344,503**	276,001,099	197,870,215
Capitalized borrowing costs	8	**11,074,116**	–	–

See accompanying Notes to Financial Statements.

UPSON INTERNATIONAL CORP.
(Doing Business Under the Name and Style of Octagon Computer Superstore; Microvalley Computer Superstore; Gadget World; Octagon Mobile; Uniso; Gadget King and Lamp Light)

NOTES TO FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2023 AND 2022
AND FOR THE YEARS ENDED DECEMBER 31, 2023, 2022 and 2021

1. Corporate Information

Upson International Corp. (Doing Business Under the Name and Style of Octagon Computer Superstore; Microvalley Computer Superstore; Gadget World; Octagon Mobile; Uniso; Gadget King and Lamp Light) (the Company) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on April 19, 1995. The Company is primarily engaged in the business of buying, selling, distributing, marketing, at wholesale and retail all kinds of goods, commodities, wares and merchandise such as but not limited to computer hardware equipment, telecommunications and other similar products.

The registered office address of the Company is Unit 2308, 23/F Capital House Tower 1, 9th Avenue corner 34th Street, Bonifacio Global City, Taguig City.

Initial Public Offering (IPO)
On June 1, 2021, the Board of Directors (BOD) and the stockholders authorized the Company to undertake an IPO of its shares with the Philippine Stock Exchange (PSE). Pursuant to the IPO plan, the BOD and the stockholders approved the increase in the Company's authorized capital stock and share split. Details of the increase in capital stock are presented in Note 11. The increase in authorized capital stock and share split were approved by the SEC on December 17, 2021 and April 12, 2022, respectively.

On January 12 and 27, 2023, the SEC and the PSE, respectively, approved the Company's application for an IPO. On April 3, 2023, the Company's shares of stock were listed under the Main Board of the PSE under the stock symbol UPSON. The Company listed 625,001,000 common shares at an offer price of ₱2.40 a share resulting to proceeds aggregating ₱1,500.0 million from the IPO (see Note 11).

Approval of Financial Statements
The financial statements of the Company as at December 31, 2023 and 2022, and for the years ended December 31, 2023, 2022 and 2021 were approved and authorized for issuance by the Company's BOD, as approved and endorsed by the Audit Committee, on February 28, 2024.

2. Summary of Material Accounting Policy Information

The material accounting policies used in the preparation of the financial statements are consistently applied to all the years presented, unless otherwise stated.

Basis of Preparation and Statement of Compliance
The financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). This financial reporting framework includes PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretation from International Financial Reporting Interpretations Committee (IFRIC) issued by the Philippine Financial and Sustainability Reporting Standards Council and adopted by the SEC, including SEC pronouncements.

Measurement Bases
The financial statements are presented in Philippine Peso (Peso), which is the Company's functional currency. All values are rounded to nearest Peso, unless otherwise indicated.

The financial statements have been prepared on a historical cost basis, except for lease liabilities and retirement liability which are measured at present value. Historical cost is generally based on the fair value of the consideration given in exchange for an asset and the fair value of the consideration received in exchange for incurring a liability. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the transaction date.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;

- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and

- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Fair values of financial assets and liabilities are disclosed in Note 19.

Adoption of Amended PFRS
The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following relevant amended PFRS effective for annual periods beginning or after January 1, 2023:

- Amendments to PAS 1, *Presentation of Financial Statements,* and PFRS Practice Statement 2, *Making Materiality Judgments - Disclosure Initiative - Accounting Policies* – The amendments require an entity to disclose its material accounting policies, instead of its significant accounting policies and provide guidance on how an entity applies the concept of materiality in making decisions about accounting policy disclosures. In assessing the materiality of accounting policy information, entities need to consider both the size of the transactions, other events or conditions and its nature. The amendments clarify (1) that accounting policy information may be material because of its nature, even if the related amounts are immaterial,

(2) that accounting policy information is material if users of an entity's financial statements would need it to understand other material information in the financial statements, and (3) if an entity discloses immaterial accounting policy information, such information should not obscure material accounting policy information. In addition, PFRS Practice Statement 2 is amended by adding guidance and examples to explain and demonstrate the application of the 'four-step materiality process' to accounting policy information.

- Amendments to PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Accounting Estimates* – The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies, and the correction of errors. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". An entity develops an accounting estimate if an accounting policy requires an item in the financial statements to be measured in a way that involves measurement uncertainty. The amendments clarify that a change in accounting estimate that results from new information or new developments is not a correction of an error, and that the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors. A change in an accounting estimate may affect only the profit or loss in the current period, or the profit or loss of both the current and future periods.

- Amendments to PAS 12, *Income Taxes - Deferred Tax Related Assets and Liabilities from a Single Transaction* – The amendments require companies to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.

- Amendments to PAS 1, *Classification of Liabilities as Current or Noncurrent* – The amendments clarify the requirements for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period. The amendments also specify and clarify the following: (i) an entity's right to defer settlement must exist at the end of the reporting period, (ii) the classification is unaffected by management's intentions or expectations about whether the entity will exercise its right to defer settlement, (iii) how lending conditions affect classification, and (iv) requirements for classifying liabilities where an entity will or may settle by issuing its own equity instruments.

Under the prevailing circumstances, the adoption of the foregoing amended PFRS did not have any material effect on the financial statements of the Company. Additional disclosures were included in the financial statements, as applicable.

Amended PFRS in Issue but not yet Effective

Relevant amended PFRS, which is not yet effective as at December 31, 2023 and has not been applied in preparing the financial statements, are summarized below.

Effective for annual periods beginning on or after January 1, 2024:

- Amendments to PAS 7, *Statement of Cash Flows* and PFRS 7, *Financial Instrument: Disclosures - Supplier Finance Arrangements* – The amendments introduced new disclosure requirements to enable users of the financial statements assess the effects of supplier finance arrangements on the liabilities, cash flows and exposure to liquidity risk. The amendments also provide transitional relief on certain aspects, particularly on the disclosures of comparative information. Earlier application is permitted.

Under the prevailing circumstances, the adoption of the foregoing amended PFRS is not expected to have any material effect on the financial statements of the Company. Additional disclosures will be included in the financial statements, as applicable.

Current versus Noncurrent Classification

The Company presents assets and liabilities in the statements of financial position based on current and noncurrent classification.

An asset is current when it is: (a) expected to be realized or intended to be sold or consumed in the normal operating cycle; (b) held primarily for the purpose of trading; (c) expected to be realized within 12 months after the reporting period; or (d) cash or cash equivalent, unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. A liability is current when it is: (a) expected to be settled in the normal operating cycle; (b) held primarily for trading; (c) due to be settled within 12 months after the reporting period; or (d) there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. The Company classifies all other assets and liabilities as noncurrent. Deferred tax assets and liabilities are classified as noncurrent.

Financial Assets and Liabilities

Date of Recognition. The Company recognizes a financial asset or a financial liability in the statements of financial position when it becomes a party to the contractual provisions of a financial instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

Initial Recognition and Measurement. Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated at fair value through profit and loss (FVPL), includes transaction cost.

"Day 1" Difference. Where the transaction in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a "Day 1" difference) in profit or loss. In cases where there is no observable data on inception, the Company deems the transaction price as the best estimate of fair value and recognizes "Day 1" difference in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the "Day 1" difference.

Classification. The Company classifies its financial assets at initial recognition under the following categories: (a) financial assets at FVPL, (b) financial assets at amortized cost and (c) financial assets at fair value through other comprehensive income (FVOCI). Financial liabilities, on the other hand, are classified as either financial liabilities at FVPL or financial liabilities at amortized cost. The classification of a financial instrument largely depends on the Company's business model and its contractual cash flow characteristics.

As at December 2023 and 2022, the Company does not have financial assets at FVPL and FVOCI, and financial liabilities at FVPL.

Financial Assets at Amortized Cost. A financial asset shall be measured at amortized cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method, less allowance for expected credit loss (ECL), if any. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the financial assets are derecognized and through amortization process. Financial assets at amortized cost are included under current assets if realizability or collectability is within 12 months after the reporting period. Otherwise, these are classified as noncurrent assets.

As at December 31, 2023 and 2022, the Company's cash in banks, cash equivalents, trade receivables and accrued interest receivable are classified under this category. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of placement and which are subject to an insignificant risk of changes in value.

Financial Liabilities at Amortized Cost. Financial liabilities are categorized as financial liabilities at amortized cost when the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

These financial liabilities are initially recognized at fair value less any directly attributable transaction costs. After initial recognition, these financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the liabilities are derecognized or impaired or through the amortization process.

As at December 31, 2023 and 2022, the Company's trade and other payables (excluding statutory payables), bank loans and trust receipts payable, and lease liabilities are classified under this category.

Impairment of Financial Assets
The Company recognizes an allowance for ECL on its financial assets at amortized cost.

Trade Receivables. The Company recognizes lifetime ECL which are estimated using a provision matrix that is based on historical credit loss experience, adjusted for forward-looking factors specific to the debtors, general economic condition and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

Other Financial Instruments at Amortized Cost. The Company measures the ECL on its other financial assets at amortized cost based on the 12-month ECL, which pertains to the portion of lifetime ECL that result from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since initial recognition, the allowance will be based on the lifetime ECL.

Reclassification

The Company reclassifies its financial assets when, and only when, it changes its business model for managing those financial assets. The reclassification is applied prospectively from the first day of the first reporting period following the change in the business model (reclassification date).

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVPL, any gain or loss arising from the difference between the previous amortized cost of the financial asset and fair value is recognized in profit or loss.

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVOCI, any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in other comprehensive income (OCI).

Derecognition of Financial Assets and Liabilities

Financial Assets. A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the right to receive cash flows from the asset has expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Company has transferred its right to receive cash flows from the asset and either: (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the continuing involvement of the Company in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statements of comprehensive income.

A modification is considered substantial if the present value of the cash flows under the new terms, including net fees paid or received and discounted using the original effective interest rate, is different by at least 10% from the discounted present value of remaining cash flows of the original liability. Net fees shall include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or the lender on the other's behalf.

The fair value of the modified financial liability is determined based on its expected cash flows, discounted using the interest rate at which the Company could raise debt with similar terms and conditions in the market. The difference between the carrying amount of the original liability and fair value of the new liability is recognized in the statements of comprehensive income.

On the other hand, if the difference does not meet the 10% threshold, the original debt is not extinguished but merely modified. In such case, the carrying amount is adjusted by the costs or fees paid or received in the restructuring.

Offsetting of Financial Assets and Liabilities
Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statements of financial position.

Classification of Financial Instrument between Liability and Equity
A financial instrument is classified as liability if it provides for a contractual obligation to:

- Deliver cash or another financial asset to another entity;

- Exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Company; or

- Satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Company does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

Inventories
Inventories are stated at the lower of cost and net realizable value (NRV). NRV represents the estimated selling price less all estimated costs to sell. Cost of inventories includes all costs of purchase and other costs incurred to bring the merchandise inventories to its present condition and location. Cost is determined using moving average method. In determining the estimated selling price less cost to sell, the Company considers any adjustment necessary for obsolescence.

When the NRV of the inventories is lower than the cost, the Company provides for an allowance for the decline in the value of the inventory and recognizes the write-down as an expense in profit or loss. The amount of any reversal of any write-down of inventories, arising from an increase in NRV, is recognized as a reduction in the amount of inventories recognized as expense in the year in which the reversal occurs.

Advances to Suppliers
Advances to suppliers consist of advance payments made to suppliers for the purchase of inventory. Advances to suppliers are measured at the amount of cash paid. Advances to suppliers are applied against billings upon receipt of inventory purchased.

Other Assets
Other assets include refundable lease deposits, prepayments and input value-added tax (VAT).

Refundable lease deposits. Refundable lease deposits pertain to deposits as required under the lease agreements to cover for repairs on damaged leased properties, which are refundable at the end of the lease term if unutilized. Refundable lease deposits are initially recorded at transaction cost and subsequently measured at cost less any impairment loss. Refundable lease deposits that are expected to be realized for no more than 12 months after the financial reporting period are classified as current assets. Otherwise, these are classified as noncurrent assets.

Prepayments. Prepayments represent expenses not yet incurred but already paid in cash. Prepayments are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are recognized in profit or loss as these are consumed in operations or expire with the passage of time. Prepayments are classified in the statements of financial position as current assets when the cost of goods or services related to the prepayment are expected to be incurred within one year or the Company's normal operating cycle, whichever is longer. Otherwise, these are classified as noncurrent assets.

Property and Equipment
Land and buildings held for use in the supply of goods or for administrative purposes, transportation equipment and other items of property and equipment are stated at cost. Cost includes expenditure that is directly attributable to the acquisition of the asset. Subsequent expenditures relating to an item of property and equipment that has already been recognized are added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Company. All other subsequent expenditures are recognized as expenses in profit or loss in the period in which those are incurred.

Properties in the course of construction for supply or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognized impairment loss. Cost includes contractor fees and other construction costs; and for qualifying assets, borrowing costs capitalized in accordance with the Company's accounting policy. Depreciation of these assets, determined on the same basis as other items of property and equipment, commences when the assets are ready for their intended use.

Land is not depreciated and subsequently measured at cost less impairment loss, if any. Building and building improvements, leasehold improvements, store furniture and equipment, transportation equipment, and furniture and fixtures are subsequently measured at cost less accumulated depreciation, amortization and any impairment losses.

Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of property and equipment as follows:

	Number of Years
Building and building improvements	20-25
Leasehold improvements	3 years or the term of lease whichever is shorter
Store furniture and equipment	3-5
Transportation equipment	5
Furniture and fixtures	3

The estimated useful lives and the depreciation and amortization method are reviewed periodically to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment with the effect of any changes in estimate accounted for on a prospective basis.

Fully depreciated and amortized assets are retained in the accounts until these are no longer in use and no further depreciation and amortization are credited or charged to operations.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Impairment of Nonfinancial Assets

The Company assesses at each reporting date whether there is an indication that the nonfinancial assets may be impaired. If any such indication exists, the Company makes an estimate of the asset's recoverable amount. Recoverable amount is the higher of fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. The fair value less cost to sell is the amount obtainable from the sale of the asset in an arm's length transaction. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset from its disposal at the end of its useful life. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the carrying amount of the asset is written down to its recoverable amount. Any impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but shall not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss to the extent that it eliminates the impairment loss which has been recognized for the asset in prior years. Any increase in excess of this amount is treated as a revaluation increase.

IPO Costs

IPO costs include registration and other regulatory fees, amounts paid to legal, accounting and other professional advisers, printing costs and stamp duties, among others. The transaction costs in issuing the Company's own equity instruments are accounted for as a deduction from equity to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided. The costs of an equity transaction that is abandoned are recognized as an expense.

Capital Stock

Capital stock is measured at par value for all shares issued.

Additional Paid-in Capital (APIC)

APIC represents the excess of proceeds or fair value of the consideration received over the par value of the shares issued net of directly attributable stock issuance costs.

Retained Earnings

Retained earnings represent the cumulative balance of the Company's results of operations, net of any dividend declaration.

Dividend Distribution

Dividend distribution to stockholders is deducted from retained earnings in the year the dividends are declared and approved.

Other Comprehensive Income (Loss)

Other comprehensive income (loss) pertains to the accumulated remeasurement gain or loss on the Company's retirement liability arising from experience adjustments and changes in financial assumptions. Remeasurements of retirement liability, and the corresponding deferred tax component, are recognized immediately in OCI and presented as a separate line item within equity. These are not reclassified to profit or loss in subsequent periods.

Basic and Diluted Earnings Per Share (EPS)

Basic EPS is computed by dividing net income for the year by the weighted average number of shares outstanding during the year, with retroactive adjustments for any stock dividends declared and share split. If the number of ordinary or potential ordinary shares outstanding increases as a result of a capitalization, bonus issue or share split, or decreases as a result of a reverse share split, the calculation of basic and diluted earnings per share for all periods presented shall be adjusted retrospectively. If these changes occur after the reporting period but before the financial statements are authorized for issue, the per share calculations for those and any prior period financial statements presented shall be based on the new number of shares.

Diluted EPS is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

Where the EPS effect of potential dilutive ordinary shares would be anti-dilutive, basic and diluted EPS are stated at the same amount.

Segment Reporting

An operating segment is a component of an entity: (a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), (b) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and (c) for which discrete financial information is available.

An operating segment may engage in business activities for which it has yet to earn revenues, for example, start-up operations may be operating segments before earning revenues.

Revenue Recognition

Revenue from contract with customers is recognized when the performance obligation in the contract has been satisfied, either at a point in time or over time. Revenue is recognized over time if one of the following criteria is met: (a) the customer simultaneously receives and consumes the benefits as the Company perform its obligations; (b) the Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or (c) the Company's performance does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date. Otherwise, revenue is recognized at a point in time. The Company also assesses its revenue arrangements to determine if it is acting as a principal or as an agent.

The Company has assessed that it acts as a principal in all of its revenue sources. Moreover, the Company generates its revenues from sale of goods which are recognized at a point in time.

Net Sales. Revenue is recognized upon delivery or pick up of goods and measured at the fair value of the consideration received or receivable, net of returns and trade discounts.

For revenue from other sources, the following specific recognition criteria must be met before revenue is recognized:

Interest Income. Interest income is recognized as the interest accrues using the effective interest method.

Other Income. Income is recognized when earned.

Cost and Expense Recognition

Costs and expenses are recognized in profit or loss when a decrease in future economic benefits related to a decrease in asset or an increase in liability has arisen that can be measured reliably.

Cost of Sales. Cost of sales is recognized as expense when the significant risk and rewards of ownership of the goods have passed to the buyer and the amount of cost can be measured reliably, which is normally upon transfer of goods to the buyer.

Operating expenses. Operating expenses constitute costs of administering the business, and the costs of selling and marketing the inventories for sale. These are recognized in profit or loss as incurred.

Borrowing Costs

Borrowing costs consist of interest and other financing costs that the Company incurs in connection with the borrowing of funds. Borrowing costs directly attributable to the development of the Company's projects that necessarily take a substantial period of time to get ready for its intended use are capitalized. Capitalization of borrowing costs commences when activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Capitalization ceases when substantially all the activities necessary to prepare the asset for its intended use are complete. All other borrowing costs are recognized as expense in the period these are incurred based on the effective interest method.

Leases

The Company assesses whether the contract is, or contains, a lease. To assess whether a contract conveys the right to control the use of an identified assets for a period of time, the Company assesses whether, throughout the period of use, it has both of the following:

i. the right to obtain substantially all of the economic benefits from the use of the identified asset; and

ii. the right to direct the use of the identified asset.

If the Company has the right to control the use of an identified asset for only a portion of the term of the contract, the contract contains a lease for that portion of the term.

The Company also assesses whether a contract contains a lease for each potential lease component.

The Company as a Lessee. At the commencement date, the Company recognizes ROU assets and lease liabilities for all leases, except for leases with lease terms of 12 months or less (short-term leases) and leases for which the underlying asset is of low value in which case the lease payments associated with those leases are recognized as an expense on a straight-line basis.

ROU Assets. At commencement date, the Company measures ROU assets at cost. The cost comprises:

i. the amount of the initial measurement of lease liabilities;

ii. any lease payments made at or before the commencement date less any lease incentives received;

iii. any initial direct costs; and

iv. an estimation of costs to be incurred by the Company in dismantling and removing the underlying asset, when applicable.

The ROU assets are recognized at the present value of the liability at the commencement date of the lease, adding any directly attributable costs. After the commencement date, the ROU assets are carried at cost less any accumulated amortization and accumulated impairment losses and adjusted for any remeasurement of the related lease liabilities. The ROU assets are amortized over the lease terms ranging from more than one (1) year to three (3) years. The ROU assets are assessed for impairment at reporting date if there is any indication that the carrying amount will not be recovered through continued use.

Lease Liabilities. At commencement date, the Company measures a lease liability at the present value of future lease payments using the interest rate implicit in the lease, if that rate can be readily determined. Otherwise, the Company uses its incremental borrowing rate.

Lease payments included in the measurement of a lease liability comprise the following:

i. fixed payments, including in-substance fixed payments;
ii. variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
iii. amounts expected to be payable by the lessee under residual value guarantees; and
iv. the exercise price under a purchase option that the Company is reasonably certain to exercise; lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option; and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

A lease liability is subsequently measured at amortized cost. Interest on the lease liability and any variable lease payments not included in the measurement of lease liability are recognized in profit or loss unless these are capitalized as costs of another asset. Variable lease payments not included in the measurement of the lease liability are recognized in profit or loss when the event or condition that triggers those payments occurs.

If there is a change in the lease term or if there is a change in the assessment of an option to purchase the underlying asset, the lease liability is remeasured using a revised discount rate considering the revised lease payments on the basis of the revised lease term or reflecting the change in amounts payable under the purchase option. The lease liability is also remeasured using the revised lease payments if there is a change in the amounts expected to be payable under a residual value guarantee or a change in future lease payments resulting from a change in an index or a rate used to determine those payments.

Employee Benefits

Short-term Benefits. The Company recognizes a liability for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Retirement Benefits. The Company has an unfunded, non-contributory defined benefit plan covering all qualified employees. The retirement expense is determined using the projected unit credit method which reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries.

The Company recognizes service costs, comprising of current service costs and interest cost, in profit or loss. Interest cost is calculated by applying the discount rate to the retirement liability.

Remeasurements comprising actuarial gains and losses and any change in the effect of the asset ceiling (excluding interest on retirement liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

The retirement liability, which is the present value of the retirement liability on which the obligations are to be settled directly, is determined by discounting the estimated future cash outflows using interest rate on government bonds that have terms to maturity approximating the terms of the related retirement liability.

Actuarial valuations are made with sufficient regularity so that the amounts recognized in the financial statements do not differ materially from the amounts that would be determined at the reporting date.

Foreign Currency Transactions and Translation

Transactions in currencies other than Peso are recorded at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at the end of the reporting period. Gains and losses arising on retranslation are included in profit or loss for the year.

Related Party Relationships and Transactions

Related party relationships exist when one party has the ability to control, directly or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting enterprise, or between and/or among the reporting enterprises and their key management personnel, directors, or its stockholders. Related parties may be individuals or corporate entities. An entity is also related to the Company when it directly or indirectly, through one or more intermediaries, controls, or is controlled by, or is under common control with the Company.

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged. Transactions with related parties are accounted for at arm's length prices or terms similar to those offered to non-related entities in an economically comparable market.

Related party transactions are considered material and/or significant if, individually or in aggregate over a twelve (12)-month period with the same related party, these transactions amount to 10% or higher of the Company's total assets.

Income Tax

Current Tax. Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Deferred Tax. Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rate and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to offset current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in OCI or directly in equity, in which case, the current and deferred tax are also recognized in OCI or directly in equity respectively.

VAT
Revenue, expenses and assets are recognized net of the amount of VAT, except:

- where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and,

- receivables and payables that are stated with the amount of VAT included.

The amount of VAT recoverable from or payable to the taxation authority is presented as “Input VAT” under “Other current assets” account or included as part of “Statutory payables” under “Trade and other payables” account in the statements of financial position.

Provisions
Provisions, if any, are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pretax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as finance costs. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimates.

Contingencies
Contingent liabilities and assets are not recognized in the financial statements. Contingent liabilities are disclosed in the notes to financial statements unless the possibility of an outflow of resources embodying economic benefit is remote. Contingent assets are disclosed in the notes to financial statements when inflows of economic benefits are probable.

Events after the Reporting Date
Post year-end events that provide additional information about the Company’s financial position at reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to financial statements when material.

3. **Significant Judgments, Accounting Estimates and Assumptions**

In applying the Company's accounting policies, management is required to make judgments (other than those involving estimations) that have a significant impact on the amounts recognized and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The judgment and estimates used in the financial statements are based upon management's evaluation of relevant facts and circumstances as at the reporting date. While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the estimated amounts.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments

The critical judgments, apart from those involving estimations, that the management has made and that have the most significant effect on the amounts recognized in the financial statements are discussed below.

Classifying Financial Instruments. The Company classifies a financial instrument, or its components, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the Company's statements of financial position.

Classifying Lease Commitments - Company as a Lessee. The Company has entered into commercial property leases for its office, stores, advertisement and warehouse spaces. For the Company's non-cancellable lease, the Company recognizes ROU assets and lease liabilities measured at the present value of lease payments to be made over the lease term using the Company's incremental borrowing rate. The Company availed exemption for short-term leases with term of 12 months or less. Accordingly, lease payments on short-term leases are recognized as expense on a straight-line basis over the lease term.

Assessing the Renewal Options of Lease Agreements. The Company's lease agreements contain renewal options that is exercisable upon the mutual agreement of the Company and the lessors. The Company makes an assessment, at the commencement of the lease, whether it is reasonably certain that the renewal options will be exercised by the Company and will be agreed to by the lessors under the circumstances. As at December 31, 2023 and 2022, the Company has assessed that it is not reasonably certain that the renewal options will be mutually agreed by the Company and the lessors. As a result, the renewal options in the lease agreements were not considered in determining the lease term of the agreements.

Determining the Appropriate Discount Rate for Lease Payments. The Company's ROU assets and lease liabilities are initially measured at the present value of lease payments. In determining the appropriate discount rate, the Company considered readily available interest rate implicit in the lease agreements, interest rate on its borrowings and the term of each lease commitment. The Company determined that the implicit rate in the lease agreements is not readily available. The Company used the incremental borrowing rate to determine the present value of ROU assets and lease liabilities.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimate at reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period are discussed below.

Assessing the ECL on Trade Receivables. The Company applies the simplified approach in measuring ECL on trade receivables which uses a lifetime ECL allowance using a provision matrix. Depending on the diversity of its debtor's base, the Company uses its historical credit loss experience adjusted for forward-looking factors, as applicable.

The Company has assessed that the ECL on trade receivables are not material as these pertain mainly to receivables from credit card companies and reputable third parties which are generally collected within three (3) to thirty (30) days from the date of transaction. No ECL was recognized for trade receivables in 2023, 2022 and 2021.

The carrying amounts of trade receivables are disclosed in Note 5.

Assessing the ECL on Other Financial Assets at Amortized Cost. The Company determines the allowance for ECL on other financial assets at amortized cost using the general approach based on the probability-weighted estimate of the present value of all cash shortfalls over the expected life of financial assets. The provision for ECL recognized during the period is limited to 12 months ECL because the Company's other financial assets at amortized cost are considered to have low credit risk. When there has been a significant increase in credit risk since initial recognition, the allowance will be based on the lifetime ECL.

The information about the ECL on the Company's other financial assets at amortized cost, comprising of cash in banks, cash equivalents and accrued interest receivable, is disclosed in Note 18 to the financial statements. The carrying amounts of the Company's cash in banks and cash equivalents, and accrued interest receivable as at December 31, 2023 and 2022 are disclosed in Notes 4 and 5, respectively.

Estimating the NRV of Inventories. The NRV of inventories represents the estimated selling price for the asset less all estimated costs necessary to make the sale. The Company determines the estimated selling price based on the recent sale transactions of similar goods with adjustments to reflect any changes in economic conditions since the date the transactions occurred. The Company writes down the carrying amount of inventory for the excess of carrying amount over its NRV or fair value less cost to sell. While the Company believes that the estimates are reasonable and appropriate, significant differences in the actual experience or significant changes in estimates may materially affect the profit or loss and equity.

Refer to Note 6 for the carrying amounts of inventories as at December 31, 2023 and 2022. The Company wrote off inventories which were determined to be worthless amounting to ₱58.5 million in 2021. No inventories were written off in 2023 and 2022. Provision for (reversal of) inventory obsolescence amounted to ₱2.9 million, ₱24.8 million and (₱7.3 million) in 2023, 2022 and 2021, respectively. Allowance for inventory obsolescence amounted to ₱51.8 million and ₱48.9 million as at December 31, 2023 and 2022, respectively.

Estimating the Useful Lives of ROU Assets and Property and Equipment. The useful lives of the Company's ROU assets, and property and equipment (except land and construction in progress) are estimated based on the period over which the assets are expected to be available for use. The estimated useful lives 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 Company's ROU assets and property and equipment. In addition, the estimation of the useful lives is based on the Company's collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of ROU assets and property and equipment would increase the recognized expenses and decrease noncurrent assets.

As at December 31, 2023 and 2022, the carrying amounts of property and equipment and ROU assets are disclosed in Notes 8 and 16, respectively. There were no changes in the estimated useful lives of these property and equipment and ROU assets in 2023, 2022 and 2021.

Assessing the Impairment of Nonfinancial Assets. The Company is required to perform an impairment assessment when certain impairment indicators are present. Determining the value in use of nonfinancial assets requires the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets. Future events could cause the Company to conclude that nonfinancial assets are impaired. Any resulting impairment loss could have a material adverse impact on the Company's financial position and financial performance. While the Company believes that the assumptions are appropriate and reasonable, significant changes in the assumptions may materially affect the assessment of recoverable values and may lead to future impairment charges.

The carrying amounts of the Company's nonfinancial assets are as follows:

	Note	**2023**	2022
Property and equipment	8	**₱819,418,924**	₱689,495,330
ROU assets	16	**275,426,853**	251,313,980
Refundable lease deposits	7	**213,463,543**	177,620,244
Advances to a stockholder	5	**31,791,848**	–
Prepayments	7	**3,685,777**	18,562,429
Advances to suppliers	5	**3,308,220**	7,694,633
Input VAT	7	**2,890,144**	768,061
Advances to officers and employees	5	**1,763,413**	30,021

There were no impairment loss recognized on nonfinancial assets in 2023, 2022 and 2021.

Estimating Retirement Liability. The determination of the retirement liability and expense is dependent on the selection of certain assumptions used by the actuary in calculating such amounts. Actual results that differ from the assumptions are accumulated and are recognized in OCI. While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the retirement liability.

The carrying amounts of retirement liability, retirement expense and the assumptions used in calculating such amounts, which include among others, discount rates and expected rates of salary increase, are disclosed in Note 15.

Assessing the Realizability of Deferred Tax Assets. The Company reviews the carrying amounts at the end of each reporting period and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. However, there is no assurance that the Company will generate sufficient taxable profit to allow all or part of its deferred tax assets to be utilized.

The carrying amounts of deferred tax assets recognized in the statements of financial position are disclosed in Note 17.

4. **Cash and Cash Equivalents**

This account consists of:

	2023	2022
Cash on hand	**₱2,365,464**	₱2,151,136
Cash in banks	**558,508,038**	799,261,667
Cash equivalents	**800,000,000**	–
	₱1,360,873,502	₱801,412,803

Cash in banks earn interest at prevailing bank deposit rates. Cash equivalents pertain to time deposit with maturity term of three months and earns interest at 6% per annum.

As at December 31, 2023, the cash and cash equivalents include the unapplied proceeds amounting to ₱983.0 million (see Note 11).

Details of interest income are as follows (see Note 13):

	2023	2022	2021
Cash in banks	**₱680,425**	₱544,189	₱710,294
Cash equivalents	**46,130,659**	–	–
	₱46,811,084	₱544,189	₱710,294

Accrued interest receivable from cash equivalents amounted to ₱9.3 million and nil as at December 31, 2023 and 2022, respectively (see Note 5).

5. Trade and Other Receivables

This account consists of:

	Note	2023	2022
Trade		**₱134,936,141**	₱55,309,570
Advances to:			
Stockholder	14	**31,791,848**	–
Suppliers		**3,308,220**	7,694,633
Officers and employees		**1,763,413**	30,021
Accrued interest receivable	4	**9,258,082**	–
		₱181,057,704	₱63,034,224

Trade receivables are noninterest-bearing and are generally settled within three to 30 days after the reporting period. No ECL was recognized for trade receivables in 2023, 2022 and 2021.

Advances to suppliers pertain to advance payments for purchases of inventory and are immediately applied against billings for inventory delivered.

Advances to officers and employees are noninterest-bearing advances subject to liquidation and are generally liquidated in the subsequent period.

6. Inventories

This account consists of:

	2023	2022
At cost:		
Computers and peripherals	**₱1,953,012,515**	₱1,734,670,678
Accessories	**589,958,494**	515,993,669
Mobile phones	**519,145,107**	271,236,350
Printers and scanners	**251,766,243**	96,397,487
Consumables	**88,712,318**	97,113,902
	3,402,594,677	2,715,412,086
Less allowance for inventory obsolescence	**(51,768,993)**	(48,852,617)
At net realizable value	**₱3,350,825,684**	₱2,666,559,469

Movements in the allowance for inventory obsolescence are as follows:

	Note	2023	2022
Balance at beginning of year		**₱48,852,617**	₱24,010,717
Provision for inventory obsolescence	12	**2,916,376**	24,841,900
Balance at end of year		**₱51,768,993**	₱48,852,617

The Company’s inventories are stated at NRV as at December 31, 2023 and 2022.

Under the terms of agreements, merchandise inventories amounting to ₱2,036.0 million and ₱2,510.2 million as at December 31, 2023 and 2022, respectively, are covered by trust receipts issued by local banks (see Note 10).

Cost of inventories sold during the period follows:

	2023	2022	2021
Inventories at beginning of year	**₱2,715,412,086**	₱2,031,284,953	₱1,569,558,866
Purchases	**8,620,161,060**	7,966,926,194	7,144,018,093
Cost of goods available for sale	**11,335,573,146**	9,998,211,147	8,713,576,959
Less inventories at end of year	**(3,402,594,677)**	(2,715,412,086)	(2,031,284,953)
	₱7,932,978,469	₱7,282,799,061	₱6,682,292,006

7. **Other Assets**

This account includes:

	Note	**2023**	2022
Refundable lease deposits	16	**₱213,463,543**	₱177,620,244
Prepayments		**3,685,777**	18,562,429
Input VAT		**2,890,144**	768,061
		220,039,464	196,950,734
Less noncurrent portion of refundable lease deposits		**59,723,407**	40,143,243
		₱160,316,057	₱156,807,491

Prepayments pertain to advance payment of rent under short-term leases and business permits.

Certain refundable lease deposits in 2022 were reclassified to conform with the current year presentation. The reclassification resulted to a reduction of the current assets by ₱40.1 million and consequently, increase in noncurrent assets as at December 31, 2022. There were no impact on the statement of comprehensive income and statement of cash flows for the year ended December 31, 2022.

8. Property and Equipment

Movements in this account follow:

	December 31, 2023							
	Land	**Building and Building Improvements**	**Leasehold Improvements**	**Store Furniture and Equipment**	**Transportation Equipment**	**Furniture and Fixtures**	**Construction in Progress**	**Total**
Cost								
Balance at beginning of year	**₱201,025,000**	**₱208,474,487**	**₱526,265,782**	**₱112,353,141**	**₱123,990,094**	**₱103,358,684**	**₱78,960,249**	**₱1,354,427,437**
Additions	**–**	**–**	**46,408,731**	**31,007,642**	**9,334,000**	**6,652,185**	**137,168,094**	**230,570,652**
Transfers	**–**	**–**	**36,808,413**	**–**	**–**	**–**	**(36,808,413)**	**–**
Balance at end of year	**201,025,000**	**208,474,487**	**609,482,926**	**143,360,783**	**133,324,094**	**110,010,869**	**179,319,930**	**1,584,998,089**
Accumulated Depreciation and Amortization								
Balance at beginning of year	**–**	**16,026,206**	**398,005,308**	**70,454,834**	**97,063,253**	**83,382,506**	**–**	**664,932,107**
Depreciation and amortization	**–**	**8,255,679**	**50,919,562**	**18,640,489**	**15,579,353**	**7,251,975**	**–**	**100,647,058**
Balance at end of year	**–**	**24,281,885**	**448,924,870**	**89,095,323**	**112,642,606**	**90,634,481**	**–**	**765,579,165**
Carrying Amount	**₱201,025,000**	**₱184,192,602**	**₱160,558,056**	**₱54,265,460**	**₱20,681,488**	**₱19,376,388**	**₱179,319,930**	**₱819,418,924**

	December 31, 2022							
	Land	Building and Building Improvements	Leasehold Improvements	Store Furniture and Equipment	Transportation Equipment	Furniture and Fixtures	Construction in Progress	Total
Cost								
Balance at beginning of year	₱201,025,000	₱29,192,000	₱494,069,077	₱87,740,359	₱121,320,451	₱97,465,164	₱214,382,180	₱1,245,194,231
Additions	–	–	5,408,056	24,612,782	2,669,643	5,893,520	70,649,205	109,233,206
Transfers	–	179,282,487	26,788,649	–	–	–	(206,071,136)	–
Balance at end of year	201,025,000	208,474,487	526,265,782	112,353,141	123,990,094	103,358,684	78,960,249	1,354,427,437
Accumulated Depreciation and Amortization								
Balance at beginning of year	–	7,784,533	335,440,152	57,305,383	81,536,984	80,187,625	–	562,254,677
Depreciation and amortization	–	8,241,673	62,565,156	13,149,451	15,526,269	3,194,881	–	102,677,430
Balance at end of year	–	16,026,206	398,005,308	70,454,834	97,063,253	83,382,506	–	664,932,107
Carrying Amount	₱201,025,000	₱192,448,281	₱128,260,474	₱41,898,307	₱26,926,841	₱19,976,178	₱78,960,249	₱689,495,330

Construction in progress represents the accumulated costs incurred in the construction of a warehouse and additional stores which are expected to be completed in 2024. As at December 31, 2023, the estimated total cost to complete the warehouse and store branches amounted to ₱53.4 million. In 2023, borrowing costs amounting to ₱11.1 million were capitalized using the capitalization rate of 5.69% (see Note 10).

The Company's building with a carrying amount of ₱164.9 million and ₱172.7 million as at December 31, 2023 and 2022, respectively, was used as collateral for a related party's outstanding loan with a local bank (see Note 14).

Fully depreciated property and equipment still being used by the Company amounted to ₱123.7 million and ₱118.6 million as at December 31, 2023 and 2022, respectively.

Depreciation and amortization are recognized from:

	Note	**2023**	2022	2021
ROU assets	16	**₱208,427,954**	₱178,152,909	₱168,388,201
Property and equipment		**100,647,058**	102,677,430	134,946,551
		₱309,075,012	₱280,830,339	₱303,334,752

Depreciation and amortization are charged to the following (see Note 12):

	2023	2022	2021
Selling and marketing expenses	**₱219,442,677**	₱208,411,535	₱244,093,555
General and administrative expenses	**89,632,335**	72,418,804	59,241,197
	₱309,075,012	₱280,830,339	₱303,334,752

9. Trade and Other Payables

This account consists of:

	Note	**2023**	2022
Trade		**₱1,256,409,554**	₱1,180,036,130
Advances from a related party	14	**25,403,485**	25,403,485
Statutory payables		**18,219,072**	27,226,159
Accrued expenses		**17,203,355**	19,651,708
Retention payables		**3,112,053**	1,918,233
Dividends payable	11	**–**	275,306,000
Others		**2,495,665**	6,145,036
		₱1,322,843,184	₱1,535,686,751

Trade payables are noninterest-bearing, unsecured and payable in cash within 90 days.

Statutory payables include VAT payable, withholding taxes payable and payables to other government agencies which are normally settled in the following month.

Accrued expenses pertain to interests, contracted and other services, professional fees and utilities which are settled within the next reporting period.

Retention payables pertain to the amounts retained by the Company from payments to contractors for the construction contracts. These are deducted as a percentage of the amount certified as due to the contractor and paid upon final acceptance of the constructed property.

Others pertain to refundable customer deposits and other nontrade payables.

10. Bank Loans and Trust Receipts Payable

Movements in this account are as follows:

	2023		
	Bank Loans	**Trust Receipts**	**Total**
Balance at beginning of year	**₱641,666,667**	**₱1,092,978,146**	**₱1,734,644,813**
Availments	**575,000,000**	**2,036,018,632**	**2,611,018,632**
Payments	**(300,000,000)**	**(2,278,049,580)**	**(2,578,049,580)**
Balance at end of year	**₱916,666,667**	**₱850,947,198**	**₱1,767,613,865**

	2022		
	Bank Loans	Trust Receipts	Total
Balance at beginning of year	₱409,166,666	₱837,268,084	₱1,246,434,750
Availments	359,846,890	2,510,201,332	2,870,048,222
Payments	(127,346,889)	(2,254,491,270)	(2,381,838,159)
Balance at end of year	₱641,666,667	₱1,092,978,146	₱1,734,644,813

As at December 31, 2023 and 2022, the bank loans and trust receipts have terms of three months to one year, subject to refinancing upon approval of the creditor bank. Bank loans were obtained for working capital purposes and to finance ongoing construction of the Company. Trust receipts were obtained to finance the purchase of inventories. Interest rates on the bank loans and trust receipts range from 3.50% to 9.25% in 2023 and 2022.

<u>**Trust Receipts**</u>

Under the terms of agreements, merchandise inventories amounting to ₱2,036.0 million and ₱2,510.2 million as at December 31, 2023 and 2022, respectively, were covered by trust receipts issued by local banks (see Note 6).

<u>**Covenants**</u>

As at December 31, 2022, the Company was compliant with loan covenants which include, among others, (1) not entering into any partnership or joint venture or commence a new business; sell, lease, transfer or otherwise dispose all or substantially all of its assets; or voluntary suspend its business operations or work or dissolve its affairs; and (2) entering into management contracts and/or make any major policy change. As at December 31, 2023, the Company's bank loans are no longer subject to loan covenants.

Details of finance costs charged to operations are as follows:

	Note	**2023**	2022	2021
Interest on trust receipts		**₱68,676,271**	₱47,067,120	₱52,827,502
Interest on bank loans		**51,534,693**	16,295,368	51,378,472
Accretion of interest on lease liabilities	16	**14,358,173**	10,784,915	12,057,292
		134,569,137	74,147,403	116,263,266
Less capitalized borrowing cost	8	**(11,074,116)**	–	–
		₱123,495,021	₱74,147,403	₱116,263,266

In 2023, borrowing costs amounting to ₱11.1 million using a capitalization rate of 5.69% was capitalized (see Note 8). No finance costs were capitalized in 2022 and 2021. Accrued interest payable presented under "Accrued expenses" in the "Trade and other payables" account in the statements of financial position amounted to ₱3.8 million and ₱3.0 million as at December 31, 2023 and 2022, respectively (see Note 21).

11. Equity

<u>Capital Stock</u>

The Company's capital stock comprise of common shares with par value of ₱0.20 a share as at December 31, 2023 and 2022, and ₱1.00 a share as at December 31, 2021.

Details of capital stock follow:

	2023		2022		2021	
	Shares	**Amount**	Shares	Amount	Shares	Amount
Authorized						
Balance at beginning of year	**6,250,000,000**	**₱1,250,000,000**	1,250,000,000	₱1,250,000,000	500,000,000	₱500,000,000
Effect of share split	**–**	**–**	5,000,000,000	–	–	–
Increase	**–**	**–**	–	–	750,000,000	750,000,000
Balance at end of year	**6,250,000,000**	**₱1,250,000,000**	6,250,000,000	₱1,250,000,000	1,250,000,000	₱1,250,000,000
Issued and outstanding						
Balance at beginning of year	**2,500,000,300**	**₱500,000,060**	500,000,000	₱500,000,000	267,500,000	₱267,500,000
Effect of share split	**–**	**–**	2,000,000,000	–	–	–
Issuance	**625,001,000**	**125,000,200**	300	60	232,500,000	232,500,000
Balance at end of year	**3,125,001,300**	**₱625,000,260**	2,500,000,300	₱500,000,060	500,000,000	₱500,000,000

On November 15, 2021, the Board of Directors (BOD) and the stockholders approved the increase in the Company's authorized capital stock from 500,000,000 shares at ₱1 par value a share, or equivalent to ₱500.0 million, to 1,250,000,000 shares at the same par value, or equivalent to ₱1,250.0 million. This was approved by the SEC on December 17, 2021. Of the increase, 232,500,000 shares at ₱1 par value a share, or equivalent to ₱232.5 million, were subscribed and paid by the stockholders as at December 31, 2021 (see Note 1).

On February 2, 2022, the BOD and the stockholders approved the amendments to the Company's articles of incorporation which included a five-to-one share split where one share at ₱1 par value a share will be converted to five shares at ₱0.20 par value a share. The SEC approved the share split on April 12, 2022. The increase in authorized capital stock and share split were pursuant to the public offering of the Company's shares with the PSE (see Note 1).

In 2022, the Company issued 300 shares at a par value of ₱0.20 a share, or equivalent to ₱60, which were paid in cash.

On April 3, 2023, the Company completed the IPO of its 625,001,000 common shares at an offer price of ₱2.40 a share (see Note 1). The net proceeds from the IPO amounting to ₱1,401.8 million, net of offer expenses of ₱98.2 million, were intended for the Company's store network expansion and store improvement program. The unapplied proceeds as at December 31, 2023 amounted to ₱983.0 million and are maintained in the Company's cash in bank and cash equivalents.

Additional paid-in capital, which represents the excess of the offer price over the par value of the shares issued, net of directly attributable stock issuance costs of ₱69.7 million, amounted to ₱1,305.3 million.

Details of the additional paid-in capital are as follows:

	Amount
Additional paid-in capital	₱1,375,002,200
Less stock issuance costs:	
Underwriting and selling fees	49,107,219
Professional fees	15,332,630
Others	5,254,303
	₱1,305,308,048

Retained Earnings

Under Section 43 of the Revised Corporation Code of the Philippines, stock corporations are prohibited from retaining surplus profits in excess of one hundred (100%) percent of paid-in capital except when justified by corporate expansion projects and when it is necessary for special reserve for probable contingencies, among others. The Company's paid-in capital (including additional paid-in capital) amounted to ₱1,930.3 million and ₱500.0 million as at December 31, 2023 and 2022, respectively, while the unappropriated retained earnings of the Company amounted to ₱878.5 million and ₱552.3 million as at December 31, 2023 and 2022, respectively.

Dividend Declaration

Details of the cash dividends declared by the Company in 2023, 2022 and 2021 are as follows:

Date of BOD approval	Stockholders of record	Dividend per share	Amount
July 12, 2023	July 26, 2023	₱0.04	₱138,000,057
November 15, 2022	September 30, 2022	0.16	390,000,000
December 20, 2021	December 20, 2021	0.67	307,000,000

Dividends payable amounted to nil and ₱275.3 million as at December 31, 2023 and 2022, respectively (see Note 9).

Appropriations

On March 24, 2023, the BOD approved the appropriation of retained earnings amounting to ₱78.0 million for the construction of a warehouse. The completion of the construction of the warehouse was extended to 2024. On November 9, 2023, the BOD approved the retention of the appropriation.

Subsequent Events

On February 28, 2024, the BOD approved the declaration of cash dividends of ₱0.06 a share or a total of ₱187.5 million.

12. **Operating Expenses**

This account consists of:

	2023	2022	2021
Selling and marketing expenses	**₱1,338,813,250**	₱1,235,717,334	₱1,083,707,559
General and administrative expenses	**337,167,179**	294,386,414	238,980,251
	₱1,675,980,429	₱1,530,103,748	₱1,322,687,810

Selling and marketing expenses consist of:

	Note	**2023**	2022	2021
Merchant discount		**₱304,859,917**	₱296,226,878	₱297,563,734
Personnel costs		**296,953,998**	289,705,675	188,341,384
Rent	16	**251,986,409**	197,986,410	111,633,705
Depreciation and amortization	8	**219,442,677**	208,411,535	244,093,555
Utilities		**131,221,218**	116,674,928	97,583,181
Contracted and other services		**97,759,776**	65,315,214	134,388,881
Advertising		**15,129,392**	19,382,030	4,114,507
Freight and delivery		**14,765,157**	13,854,500	10,664,330
Retirement expense	15	**3,778,330**	3,318,264	2,670,606
Provision for (reversal of) inventory obsolescence	6	**2,916,376**	24,841,900	(7,346,324)
		₱1,338,813,250	₱1,235,717,334	₱1,083,707,559

General and administrative expenses consist of:

	Note	**2023**	2022	2021
Personnel costs		**₱97,505,755**	₱84,115,846	₱42,530,175
Depreciation and amortization	8	**89,632,335**	72,418,804	59,241,197
Taxes and licenses		**61,079,416**	56,505,615	57,001,480
IPO expense		**16,546,052**	8,273,027	–
Stationery and supplies		**13,635,938**	11,333,539	22,504,038
Repairs, warranties and maintenance		**12,504,093**	15,774,826	12,386,319
Transportation and travel		**12,156,859**	10,687,695	6,786,294
Representation		**8,301,601**	8,881,915	19,861,402
Professional fees		**8,088,818**	9,886,794	9,725,074
Insurance		**7,817,667**	4,986,726	3,668,483
Retirement expense	15	**1,240,626**	963,456	603,061
Rent	16	**492,696**	4,472,060	–
Others		**8,165,323**	6,086,111	4,672,728
		₱337,167,179	₱294,386,414	₱238,980,251

Personnel costs consist of:

	2023	2022	2021
Salaries and wages	**₱346,795,528**	₱322,011,067	₱206,355,220
Employee benefits	**47,664,225**	51,810,454	24,516,339
	₱394,459,753	₱373,821,521	₱230,871,559

13. **Other Income**

This account consists of:

	Note	**2023**	2022	2021
Interest income	4	**₱46,811,084**	₱544,189	₱710,294
Realized foreign exchange gain		**7,472,929**	7,021,758	–
Gain on lease modification	16	**102,070**	–	621,157
Gain on lease concessions	16	**–**	17,500,079	52,687,895
Other income		**251,696,272**	117,008,318	36,833,602
		₱306,082,355	₱142,074,344	₱90,852,948

Other income mainly pertains to income from product advertising or promotional support from suppliers.

14. **Related Party Transactions**

The Company has transactions with related parties in the ordinary course of business as follows:

	Nature of Transaction	Transactions during the Year			Outstanding Balance	
		2023	2022	2021	**2023**	2022
Trade and Other Receivables						
Stockholder	Advances for business development expenses	**₱31,791,848**	₱–	₱–	**₱31,791,848**	₱–
Advances to a Related Party						
Entity under common control	Advances (Collection)	**₱–**	₱–	(₱1,098,699,844)	**₱–**	₱–
Trade and Other Payables						
Entity under common control	Advances from a related party	**₱–**	₱–	₱25,403,485	**₱25,403,485**	₱25,403,485
Lease Arrangement (see Note 16)						
Entity under common control	ROU asset amortization	**(₱68,963,541)**	(₱56,663,023)	(₱37,956,875)	**₱18,764,032**	₱60,088,894
	Lease liability payment	**(68,402,482)**	(60,565,286)	(40,020,000)	**19,350,782**	59,671,472

Terms and Conditions

Advances to a Stockholder
Advances to a stockholder are unsecured noninterest-bearing advances for ordinary travel or business expenses which are subsequently liquidated.

Advances from a Related Party
Advances from a related partyare unsecured, non-interest bearing, due and demandable and are settled in cash.

The Company's building with a carrying amount of ₱164.9 million and ₱172.7 million as at December 31, 2023 and 2022, respectively, was used as collateral for a related party's outstanding loan with a local bank (see Note 8).

Compensation of Key Management Personnel
The remuneration of the key management personnel of the Company are set out below:

	2023	2022	2021
Short-term employee benefits	**₱6,853,860**	₱6,853,860	₱3,120,000
Post-employment benefits	**665,628**	298,574	240,925
	₱7,519,488	₱7,152,434	₱3,360,925

15. Retirement Liability

The Company has an unfunded, non-contributory defined benefit plan covering substantially all qualified employees. The retirement liability is based on years of service and compensation based on the last year of employment as determined by an external actuary. The latest actuarial valuation was dated December 31, 2023.

There are no unusual or significant risks to which the retirement liability exposes the Company. However, in the event a benefit claim arises under the retirement liability, the benefit shall immediately be due and payable by the Company.

Retirement expense recognized in the statements of comprehensive income is as follows:

	2023	2022	2021
Current service cost	**₱2,544,484**	₱2,627,547	₱2,241,359
Interest cost	**2,474,472**	1,654,173	1,032,308
	₱5,018,956	₱4,281,720	₱3,273,667

Retirement expense is charged to the following (see Note 12):

	2023	2022	2021
Selling and marketing expenses	**₱3,778,330**	₱3,318,264	₱2,670,606
General and administrative expenses	**1,240,626**	963,456	603,061
	₱5,018,956	₱4,281,720	₱3,273,667

The movements in retirement liability recognized in the statements of financial position are as follows:

	2023	2022
Balance at beginning of year	**₱33,438,809**	₱31,811,018
Current service cost	**2,544,484**	2,627,547
Interest cost	**2,474,472**	1,654,173
Remeasurement (gain) loss	**3,413,228**	(2,653,929)
Balance at end of year	**₱41,870,993**	₱33,438,809

The assumptions used to determine retirement liability are as follows:

	2023	2022	2021
Discount rate	**6.20%**	7.40%	5.20%
Salary increase rate	**3.00%**	3.00%	3.00%

The sensitivity analyses based on reasonably possible changes of the assumptions as at December 31, 2023 follow:

	Basis Points	Effect on Present Value of Retirement Liability
Discount rate	+100	(₱2,871,944)
	-100	8,893,570
Salary increase rate	+100	9,036,696
	-100	(3,081,059)

The sensitivity analysis above have been determined based on a method that extrapolates the impact on net defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

The Company does not maintain a fund for its retirement liability. While funding is not a requirement of the law, there is a risk that the Company may not have the cash if several employees retire within the same year.

The weighted average duration of the defined benefit plan at the end of the reporting period is 15 years.

Details of accumulated remeasurement losses on retirement liability recognized in equity are as follows:

	2023		
	Accumulated Remeasurement Losses	**Deferred Tax** (see Note 17)	**Accumulated Remeasurement Losses, Net of Tax**
Balance at beginning of year	**₱5,673,046**	**(₱1,418,262)**	**₱4,254,784**
Remeasurement loss	**3,413,228**	**(853,307)**	**2,559,921**
Balance at end of year	**₱9,086,274**	**(₱2,271,569)**	**₱6,814,705**

	2022		
	Accumulated Remeasurement Losses (Gains)	Deferred Tax (see Note 17)	Accumulated Remeasurement Losses, Net of Tax
Balance at beginning of year	₱8,326,975	(₱2,081,744)	₱6,245,231
Remeasurement gain	(2,653,929)	663,482	(1,990,447)
Balance at end of year	₱5,673,046	(₱1,418,262)	₱4,254,784

	2021		
	Accumulated Remeasurement Losses	Deferred Tax (see Note 17)	Accumulated Remeasurement Losses, Net of Tax
Balance at beginning of year	₱4,967,856	(₱1,490,357)	₱3,477,499
Remeasurement loss	3,359,119	(839,780)	2,519,339
Effect of change in income tax rate	–	248,393	248,393
Balance at end of year	₱8,326,975	(₱2,081,744)	₱6,245,231

As at December 31, 2023, the expected future benefit payments are as follows:

	Amount
More than 1 year to 5 years	₱12,736,044
More than 5 years to 10 years	4,958,200
10 years and up	311,643,997

16. **Lease Commitments**

Company as Lessee - Short-term Lease

The Company leases certain office, store and advertisement spaces for a period of less than one (1) year at a fixed rental based on agreement with the lessors.

Total rent expense on short-term leases is charged to the following (see Note 12):

	2023	2022	2021
Selling and marketing expenses	**₱251,986,409**	₱197,986,410	₱111,633,705
General and administrative expenses	**492,696**	4,472,060	–
	₱252,479,105	₱202,458,470	₱111,633,705

Company as Lessee - Long-term Lease

The Company has non-cancellable lease agreements with a related party and third parties for its warehouse, office, parking lots and store spaces for more than 12 months for which ROU assets and corresponding lease liabilities are recognized.

ROU Assets

The balance of and movements in ROU assets are as follows:

	Note	**2023**	2022
Cost			
Balance at beginning of year		**₱1,017,780,596**	₱741,779,497
Additions		**232,869,169**	197,206,057
Effect of lease modification		**(328,342)**	78,795,042
Balance at end of year		**1,250,321,423**	1,017,780,596
Accumulated amortization			
Balance at beginning of year		**766,466,616**	588,313,707
Amortization	8	**208,427,954**	178,152,909
Balance at end of year		**974,894,570**	766,466,616
Carrying Amount		**₱275,426,853**	₱251,313,980

Lease Liabilities
The balance and movements in lease liabilities are as follows:

	Note	**2023**	2022
Balance at beginning of year		**₱250,610,778**	₱161,954,704
Additions		**230,774,915**	197,206,057
Payments		**(220,119,782)**	(180,629,861)
Accretion	10	**14,358,173**	10,784,915
Effect of lease modification		**(430,412)**	78,795,042
Gain on lease concessions	13	**–**	(17,500,079)
Balance at end of year		**275,193,672**	250,610,778
Current portion		**147,320,374**	154,972,049
Noncurrent portion		**₱127,873,298**	₱95,638,729

Incremental borrowing rate ranging from 3.69% to 6.75% was applied to determine the discounted amount of lease liabilities in 2023 and 2022.

In 2023, the Company has pre-terminated one (1) lease agreement resulting to a gain on lease modification of ₱0.1 million (see Note 13). In 2022, there were certain modifications to the lease agreements arising from increase in monthly rentals, reduction in leased area and extension of lease terms prior to renewal, which resulted to the increase in ROU assets and lease liabilities by ₱78.8 million. No gain or loss on lease modification was recognized in 2022.

Gain on lease concessions pertains to the difference between contractual lease payments and the payments made under lease concession agreements directly attributable to COVID-19. Gains related to lease concessions amounted to nil, ₱17.5 million and ₱52.7 million in 2023, 2022 and 2021, respectively (see Note 13).

The future minimum lease payments and present value as at December 31, 2023 is as follows:

	Minimum Lease Payments	Present Value
Not later than one year	₱161,235,917	₱147,320,374
Later than one year but not more than five years	123,702,631	127,873,298
	₱284,938,548	₱275,193,672

Refundable Lease Deposits
Lease deposits, which are refundable at the end of the lease term if unutilized, aggregate ₱213.5 million and ₱177.6 million as at December 31, 2023 and 2022, respectively (see Note 7).

17. **Income Taxes**

The provision for current income tax pertains to regular corporate income tax (RCIT) in 2023, 2022 and 2021.

The reconciliation of income tax computed at the statutory tax rate to provision for income tax as shown in the statements of comprehensive income is as follows:

	2023	2022	2021
Income tax computed at the statutory tax rate	**₱145,996,734**	₱179,251,315	₱134,387,767
Adjustment for:			
Expenses charged to APIC	**(17,423,538)**	–	–
Interest income already subjected to final tax	**(11,702,771)**	(136,047)	(177,574)
Nondeductible expenses	**2,925,692**	34,013	44,394
Effect of change in income tax rate	**–**	–	(344,676)
	₱119,796,117	₱179,149,281	₱133,909,911

The Company's net deferred tax assets in the statements of financial position consist of the following:

	Note	**2023**	2022
Deferred Tax Assets:			
Allowance for inventory obsolescence		**₱12,942,248**	₱12,213,154
Retirement liability:			
Profit or loss		**8,196,180**	6,941,441
OCI	15	**2,271,569**	1,418,262
		23,409,997	20,572,857
Deferred Tax Liabilities:			
Capitalized borrowing cost		**(2,768,529)**	–
Unrealized foreign exchange gain		**(1,522,269)**	–
Excess of ROU asset over lease liability		**(58,295)**	(175,801)
		(4,349,093)	(175,801)
		₱19,060,904	₱20,397,056

18. **Financial Risk Management**

<u>Financial Risk Management Objectives and Policies</u>

The Company's business activities expose it to certain financial risks which includes credit risk, liquidity risk and interest rate risk. The Company's overall risk management program seeks to minimize potential adverse effects on the financial performance of the Company. The BOD reviews and approves the policies for managing each of these risks.

Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Company. Financial assets that potentially subject the Company to credit risk consist primarily of cash in banks, cash equivalents, accrued interest receivables and trade receivables.

Risk Management. To manage credit risk, the Company deals only with reputable banks and creditworthy third parties. Sales to retail customers are required to be settled in cash or through major credit cards, further mitigating credit risk. There are no significant concentrations of credit risk, whether through exposure to individual customers and/or specific industry sectors.

The table below shows the gross maximum exposure of the Company to credit risk:

	2023	2022
Cash in banks and cash equivalents	**₱1,358,508,038**	₱799,261,667
Trade receivables	**134,936,141**	55,309,570
Accrued interest receivable	**9,258,082**	–
	₱1,502,702,261	₱854,571,237

As at December 31, 2023 and 2022, the amount of cash in banks, cash equivalents, accrued interest receivable and trade receivables are neither past due nor impaired and were classified as "*High Grade*". High grade financial assets are those accounts with counterparties who are not expected by the Company to default in settling its obligations, thus credit risk exposure is minimal. This normally includes large prime financial institutions and companies. Credit quality was determined based on the credit standing of the counterparty.

Security. The Company does not hold collateral as security.

Impairment. Impairment analysis for trade receivables is performed at each reporting date using a provision matrix to measure ECL. The provision rates are based on days past due for groupings based on customer type and rating. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written-off if collection cannot be made despite exhausting all extra-judicial and legal means of collection.

There are no guarantees against trade receivables but these receivables from credit card companies and reputable third parties which are generally collectible within three (3) to thirty (30) days from transaction date. Historical information and present circumstances do not indicate any significant risk of impairment. Thus, management did not recognize allowance for ECL.

For other financial assets at amortized cost which mainly comprise of cash in banks, cash equivalents and accrued interest receivable, the Company applies the general approach in measuring ECL. Management assessed that the application of the general approach does not result to significant expected credit losses and thus, did not recognize allowance for ECL.

The Company assessed that the credit risk on the financial assets has not increased significantly since initial recognition because cash in banks, cash equivalents and accrued interest receivable are deposited with reputable counterparty banks, which exhibit good credit ratings.

The following table summarizes the impairment analysis of the Company's financial assets at amortized cost. It indicates whether the financial assets at amortized cost were subject to a 12-month ECL or lifetime ECL allowance and, in the latter case, whether they were credit-impaired.

	2023			
	12-Month ECL	**Lifetime ECL - Not Credit Impaired**	**Lifetime ECL - Credit Impaired**	**Total**
Cash in banks and cash equivalents	**₱1,358,508,038**	**₱–**	**₱–**	**₱1,358,508,038**
Trade receivables	**–**	**134,936,141**	**–**	**134,936,141**
Accrued interest receivable	**9,258,082**	**–**	**–**	**9,258,082**
	₱1,367,766,120	**₱134,936,141**	**₱–**	**₱1,502,702,261**

	2022			
	12-Month ECL	Lifetime ECL - Not Credit Impaired	Lifetime ECL - Credit Impaired	Total
Cash in banks	₱799,261,667	₱–	₱–	₱799,261,667
Trade receivables	–	55,309,570	–	55,309,570
	₱799,261,667	₱55,309,570	₱–	₱854,571,237

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The tables below detail the Company's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay.

	2023			
	1 to 6 Months	**6 Months to 1 Year**	**More than 1 Year**	**Total**
Trade and other payables*	**₱1,301,512,059**	**₱3,112,053**	**₱–**	**₱1,304,624,112**
Bank loans and trust receipts payable	**850,947,198**	**916,666,667**	**–**	**1,767,613,865**
Lease liabilities	**88,928,784**	**72,307,133**	**123,702,631**	**284,938,548**
	₱2,241,388,041	**₱992,085,853**	**₱123,702,631**	**₱3,357,176,525**

**Excluding statutory payables.*

	2022			
	1 to 6 Months	6 Months to 1 Year	More than 1 Year	Total
Trade and other payables*	₱1,506,542,359	₱1,918,233	₱–	₱1,508,460,592
Bank loans and trust receipts payable	1,092,978,146	641,666,667	–	1,734,644,813
Lease liabilities	103,590,126	59,154,557	102,382,834	265,127,517
	₱2,703,110,631	₱702,739,457	₱102,382,834	₱3,508,232,922

**Excluding statutory payables.*

Interest Rate Risk

Interest rate risk is the risk that future cash flows from a financial instrument (cash flow interest rate risk) or its fair value (fair value interest rate risk) will fluctuate because of changes in market interest rates.

The Company's loans payable to local banks are subject to a repricing interest rate with and are exposed to fair value interest rate risk. The repricing of these instruments is done on a semiannual basis.

The Company regularly monitors interest rate movements and on the basis of current and projected economic and monetary data, decides on the best alternative to take. No sensitivity analysis is needed as future interest rate changes are not expected to significantly affect the Company's net income.

These loans are promissory notes under loan facilities which mature within 90 days to one year as at December 31, 2023 and 2022, and bear an effective interest rate ranging from 3.50% to 9.25% in 2023 and 2022.

19. Fair Value of Financial Assets and Liabilities

Fair values of the Company's financial assets and financial liabilities are shown below:

	2023		2022	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash in banks and cash equivalents	**₱1,358,508,038**	**₱1,358,508,038**	₱799,261,667	₱799,261,667
Trade receivables	**134,936,141**	**134,936,141**	55,309,570	55,309,570
Accrued interest receivable	**9,258,082**	**9,258,082**	–	–
	₱1,502,702,261	**₱1,502,702,261**	₱854,571,237	₱854,571,237
Financial Liabilities				
Trade and other payables*	**₱1,304,624,112**	**₱1,304,624,112**	₱1,508,460,592	₱1,508,460,592
Bank loans and trust receipts payable	**1,767,613,865**	**1,767,613,865**	1,734,644,813	1,734,644,813
Lease liabilities	**275,193,672**	**268,423,967**	250,610,778	213,611,942
	₱3,347,431,649	**₱3,340,661,944**	₱3,493,716,183	₱3,456,717,347

**Excluding statutory payables.*

Due to the short-term maturities of cash in banks, cash equivalents, trade receivables, accrued interest receivable, trade and other payables (excluding statutory payables), and bank loans and trust receipts payable, their carrying amounts approximate their fair values.

Lease Liabilities. Estimated fair values have been calculated on the lease liabilities' expected cash flows using the prevailing market rates that are specific to the tenor of the instruments' cash flows at reporting dates (Level 3).

As at December 31, 2023 and 2022, there were no financial instruments measured at fair value. There were no transfers between levels of fair value hierarchy in 2023 and 2022.

20. Capital Risk Management

The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance. No changes were made in the objectives, policies or processes in 2023, 2022 and 2021.

The capital structure of the Company consists of total liabilities and equity. The Company manages the capital structure and makes adjustments when there are changes in economic condition, its business activities, expansion programs and the risk characteristics of the underlying assets.

The Company is not subject to externally imposed capital requirements.

The Company's debt-to-equity ratio is as follows:

	2023	2022
Total liabilities	**₱3,424,697,703**	₱3,641,097,352
Total equity	**2,802,005,332**	1,048,066,244
Debt-to-equity ratio	**1.22:1**	3.47:1

21. Reconciliation of Liabilities Arising from Financing Activities

The table below details changes in the Company's liabilities arising from financing activities, including both cash and non-cash changes as at December 31, 2023 and 2022:

	December 31, 2022	**Additions**	**Accretion/ Interest expense**	**Payment**	**Non-cash Changes**	**December 31, 2023**
Bank loans and trust receipts payable	**₱1,734,644,813**	**₱2,611,018,632**	**₱–**	**(₱2,578,049,580)**	**₱–**	**₱1,767,613,865**
Lease liabilities	**250,610,778**	**230,774,915**	**14,358,173**	**(220,119,782)**	**(430,412)**	**275,193,672**
Dividends payable	**275,306,000**	**138,000,057**	**–**	**(413,306,057)**	**–**	**–**
Accrued interest payable	**2,953,922**	**–**	**120,210,964**	**(119,320,548)**	**–**	**3,844,338**
	₱2,263,515,513	**₱2,979,793,604**	**₱134,569,137**	**(₱3,330,795,967)**	**(₱430,412)**	**₱2,046,651,875**

	December 31, 2021	Additions	Accretion/ Interest expense	Payment	Non-cash Changes	December 31, 2022
Bank loans and trust receipts payable	₱1,246,434,750	₱2,870,048,222	₱–	(₱2,381,838,159)	₱–	₱1,734,644,813
Lease liabilities	161,954,704	197,206,057	10,784,915	(180,629,861)	61,294,963	250,610,778
Dividends payable	–	390,000,000	–	(114,694,000)	–	275,306,000
Accrued interest payable	2,416,643	–	63,362,488	(62,825,209)	–	2,953,922
	₱1,410,806,097	₱3,457,254,279	₱74,147,403	(₱2,739,987,229)	₱61,294,963	₱2,263,515,513

22. Basic and Diluted Earnings Per Share

Basic earnings per share is computed as follows:

	2023	2022	2021
Net income	**₱464,190,818**	₱537,855,981	₱403,641,157
Divided by weighted average number of outstanding shares	**2,968,751,050**	2,500,000,300	1,337,500,000
	₱0.16	₱0.22	₱0.30

The earnings per share calculation reflects the changes in the number of outstanding shares as a result of the share split in 2022 and listing of shares in 2023 (see Note 11).

On April 3, 2023, the Company's shares of stock were listed under the Main Board of the PSE with an initial public offering of 625,001,000 common shares at an offer price of ₱2.40 a share (see Note 11).

The Company has no dilutive potential shares in 2023, 2022 and 2021.

23. Operating Segment Information

For management purposes, the Company is organized into operating segments based on brand names. However, due to the similarity in the economic characteristics, such segments have been aggregated into a single operating segment for external reporting purposes.

Sales reflected in the statements of comprehensive income are all from external customers and within the Philippines, which is the Company's domicile and primary place of operations. Additionally, the Company's noncurrent assets are also primarily acquired, located and used within the Philippines.

Sales are attributable to revenue from the general public, which are generated through the Company's store outlets. Consequently, the Company has no concentrations of revenue from a single customer in 2023, 2022 and 2021.

BOA/PRC Accreditation No. 4782
August 16, 2021, valid until April 13, 2024
SEC Registration No. PP201007009

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Phone : +632 8 982 9100
Fax : +632 8 982 9111
Website : www.reyestacandong.com

REPORT OF INDEPENDENT AUDITORS
ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
Upson International Corp.
Unit 2308, 23/F Capital House Tower 1
9th Avenue corner 34th Street
Bonifacio Global City, Taguig City

We have audited in accordance with Philippine Standards on Auditing the basic financial statements of Upson International Corp. (Doing Business Under the Name and Style of Octagon Computer Superstore; Microvalley Computer Superstore; Gadget World; Octagon Mobile; Uniso; Gadget King and Lamp Light) (the Company) as at December 31, 2023 and 2022, and for the years ended December 31, 2023, 2022 and 2021, and have issued our report thereon dated February 28, 2024. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Supplementary Schedules are the responsibility of the Company's management. These supplementary schedules include the following:

- Supplementary Schedules as Required by Part II of the Revised Securities Regulation Code (SRC) Rule 68
- Reconciliation of Retained Earnings Available for Dividends Declaration
- Conglomerate Map as at December 31, 2023

These schedules are presented for the purpose of complying with the Revised SRC Rule 68 and are not part of the basic financial statements. The information in these supplementary schedules have been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

REYES TACANDONG & CO.

DARRYLL REESE Q. SALANGAD
Partner
CPA Certificate No. 107615
Tax Identification No. 227-770-760-000
BOA Accreditation No. 4782; Valid until April 13, 2024
BIR Accreditation No. 08-005144-016-2022
Valid until May 15, 2025
PTR No. 10072422
Issued January 2, 2024, Makati City

February 28, 2024
Makati City, Metro Manila

UPSON INTERNATIONAL CORP.

(Doing Business Under the Name and Style of Octagon Computer Superstore; Microvalley Computer Superstore; Gadget World; Octagon Mobile; Uniso; Gadget King and Lamp Light)

SUPPLEMENTARY SCHEDULES AS REQUIRED BY PART II OF THE REVISED SRC RULE 68

December 31, 2023

** There are no receivables arising from activities that are not in the ordinary course of business that aggregated more than ₱1.0 million or 1% of total assets, whichever is lower, as at December 31, 2023.*
*** There are no long-term debt as at December 31, 2023.*
**** Indebtedness to related parties are classified as current as at December 31, 2023.*

UPSON INTERNATIONAL CORP.

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SCHEDULE G – CAPITAL STOCK

December 31, 2023

Title of Issue	Number of Shares authorized	Number of shares issued and outstanding as shown under related balance sheet caption	Number of shares reserved for captions, warrants, conversion and other rights	Number of shares held by related parties	Number of shares held by directors, officers and employees	Others
Common shares	6,250,000,000	3,125,001,300	–	1,162,500,000	1,283,080,300	679,421,000

UPSON INTERNATIONAL CORP.
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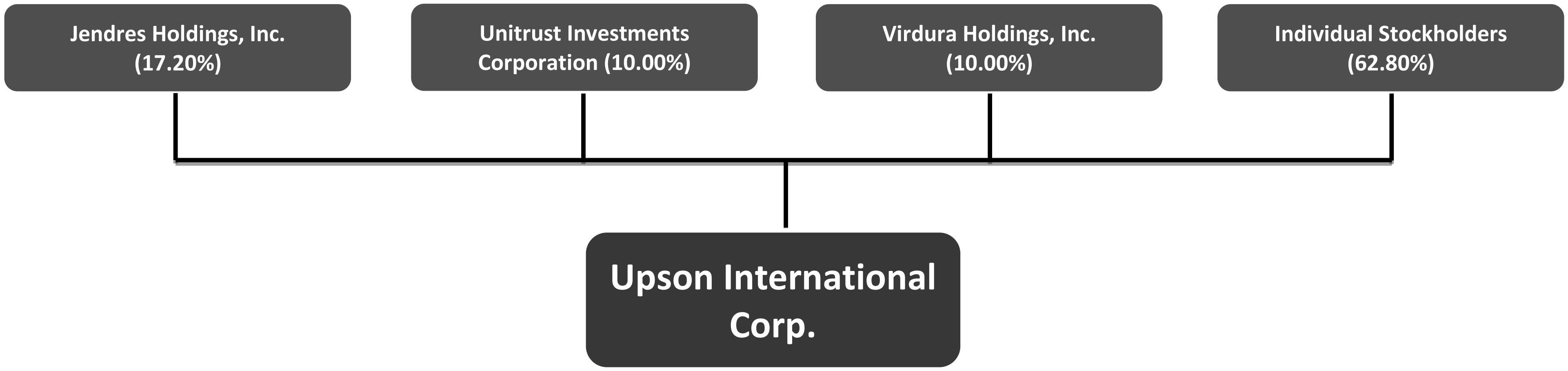
MAP SHOWING THE RELATIONSHIP BETWEEN AND AMONG THE GROUP
December 31, 2023



UPSON INTERNATIONAL CORP.

(Doing Business Under the Name and Style of Octagon Computer Superstore; Microvalley Computer Superstore; Gadget World; Octagon Mobile; Uniso; Gadget King and Lamp Light)

SUPPLEMENTARY SCHEDULE OF RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION

December 31, 2023

Unappropriated Retained Earnings, beginning of reporting period		₱533,166,373
Less: Category B: Items that are directly credited to Unappropriated Retained Earnings		
Dividend declaration during the period	(138,000,057)	
Retained earnings appropriated during the reporting period	(78,000,000)	(216,000,057)
Unappropriated Retained Earnings, as adjusted		317,166,316
Add: Net Income for the current year		464,190,818
Less: Category F: Other Items that should be excluded from the determination of the amount available for dividends distribution		
Net movement in deferred tax assets		(1,983,833)
Total Retained Earnings, end of the reporting period available for dividend		₱779,373,301

UPSON INTERNATIONAL CORP.

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SCHEDULE FOR LISTED COMPANIES WITH A RECENT OFFERING OF SECURITIES TO THE PUBLIC

For the Year Ended December 31, 2023

	As Disclosed in Final Prospectus	Actual
Gross Proceeds	**₱1,500,002,400**	**₱1,500,002,400**
Offer Expenses	**(78,200,000)**	**(98,156,179)**
Net Proceeds	**1,421,802,400**	**1,401,846,221**
Use of Proceeds		
Store network expansion and store improvement program	1,421,802,400	(418,844,712)
Unapplied Proceeds	**₱–**	**₱983,001,509**

The actual offer expenses exceeded the initially estimated amount by ₱20.0 million. Accordingly, the BOD approved the allocation of the proceeds of the same amount from store network expansion and improvement program to offer expenses on July 12, 2023.

REYES TACANDONG & CO.
FIRM PRINCIPLES. WISE SOLUTIONS.

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Website : www.reyestacandong.com

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

The Stockholders and the Board of Directors
Upson International Corp.
Unit 2308, 23/F Capital House Tower 1
9th Avenue corner 34th Street
Bonifacio Global City, Taguig City

We have audited in accordance with Philippines Standards on Auditing, the accompanying financial statements of Upson International Corp. (Doing Business Under the Name and Style of Octagon Computer Superstore; Microvalley Computer Superstore; Gadget World; Octagon Mobile; Uniso; Gadget King and Lamp Light) (the Company) as at December 31, 2023 and 2022, and for the years ended December 31, 2023, 2022 and 2021, and have issued our report dated February 28, 2024. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Company's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for purposes of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Company's financial statements as at December 31, 2023 and 2022, and for the years ended December 31, 2023, 2022, and 2021 and no material exceptions were noted.

REYES TACANDONG & CO.

DARRYLL REESE Q. SALANGAD
Partner
CPA Certificate No. 107615
Tax Identification No. 227-770-760-000
BOA Accreditation No. 4782; Valid until April 13, 2024
BIR Accreditation No. 08-005144-016-2022
Valid until May 15, 2025
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February 28, 2024
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UPSON INTERNATIONAL CORP.

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SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS

December 31, 2023 and 2022

Ratio	Formula	2023	2022
Current/Liquidity Ratio			
	Current assets	**₱5,053,072,947**	₱3,687,813,987
	Divided by: Current liabilities	**3,254,953,412**	3,512,019,814
	Current/Liquidity ratio	**1.55:1.00**	1.05:1.00
Solvency Ratio			
	Net income before depreciation and amortization	**₱773,265,830**	₱818,686,320
	Divided by: Total liabilities	**3,424,697,703**	3,641,097,352
	Solvency ratio	**0.23:1.00**	0.22:1.00
Debt-to-Equity Ratio			
	Total liabilities	**₱3,424,697,703**	₱3,641,097,352
	Divided by: Total equity	**2,802,005,332**	1,048,066,244
	Debt-to-Equity ratio	**1.22:1.00**	3.47:1.00
Asset-to-Equity Ratio			
	Total assets	**₱6,226,703,035**	₱4,689,163,596
	Divided by: Total equity	**2,802,005,332**	1,048,066,244
	Asset-to-Equity ratio	**2.22:1.00**	4.47:1.00
Interest Rate Coverage Ratio			
	Income before interest and taxes	**₱707,481,956**	₱791,152,665
	Divided by: Interest expense	**123,495,021**	74,147,403
	Interest Rate Coverage ratio	**5.73:1.00**	10.67:1.00
Return on Assets Ratio			
	Net income	**₱464,190,818**	₱537,855,981
	Divided by: Total assets	**6,226,703,035**	4,689,163,596
	Return on Assets ratio	**0.07:1.00**	0.11:1.00
Return on Equity Ratio			
	Net income	**₱464,190,818**	₱537,855,981
	Divided by: Total equity	**2,802,005,332**	1,048,066,244
	Return on Equity ratio	**0.17:1.00**	0.51:1.00
Net Profit Margin			
	Net income	**₱464,190,818**	₱537,855,981
	Divided by: Revenues	**10,010,358,499**	9,461,981,130
	Net Profit Margin	**0.05:1.00**	0.06:1.00