UPSON INTERNATIONAL CORP.

ANNUAL REPORT 2023

Growth Journey

From our humble beginnings to one of the Philippines' largest retailers, we have remained committed to helping address technology needs.

Our purpose is to empower consumers, offering a broad portfolio of choices and making these available across the country so they can enjoy the benefits of digital technologies and build better lives. We do this by working with trusted brands and suppliers to keep our stores stocked and our customers satisfied. Our strong relationships within our organization and with malls and shopping centers are also central to how we work and sustain progress.

Through Octagon, Micro Valley, Gadget King, Octagon Mobile, and concept stores, we open opportunities to enrich lives and enable full potential for all.

ABOUT THIS REPORT

This annual report details our performance in 2023 and our priorities for the years ahead. We welcome your feedback and suggestions. Please email us at iro@upson.com.ph

Find more information about Upson at upson.com.ph

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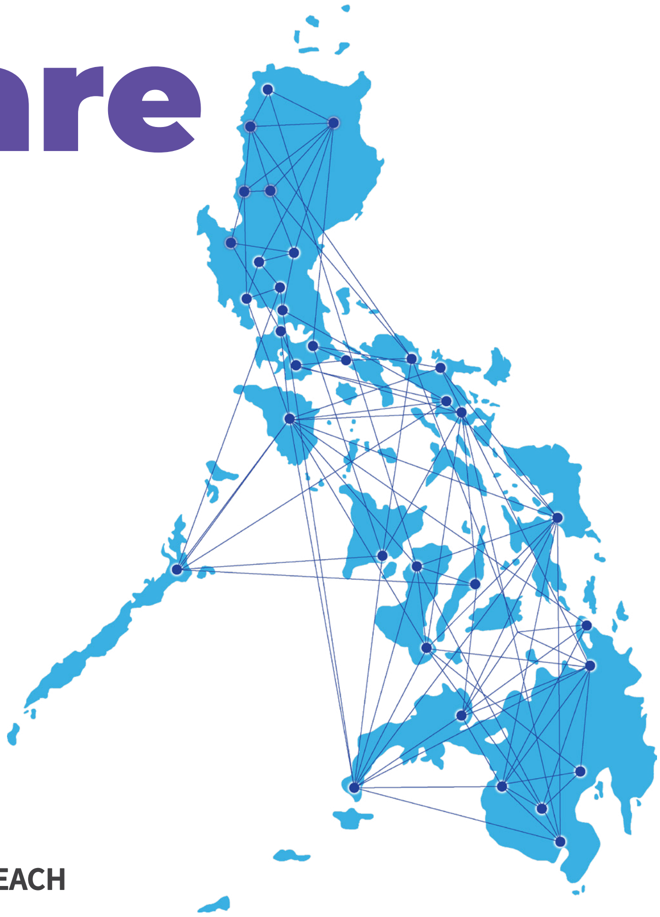
Who we are



Upson is the largest information technology retailer in the Philippines. We are a partner to the Filipino consumer, and we are a partner to the world's biggest brands looking to expand in this market.

OUR VALUES

Our values are what we stand for. They guide the way we work together as an organization and are key to delivering long-term success for our stakeholders.

Unity
We grow and succeed together with a spirit of teamwork and excellence.

Integrity
We work and run our business that is rooted in trust.

Commitment
We go beyond to help Filipinos discover technology.

OUR REACH

Our nationwide presence has been a core business strength with resilient partnerships and supply chain.

Our customers range from students and professionals to small and medium-sized businesses. We aim to bring information technology within their reach and for everyone, everywhere in the country.

NATIONWIDE PRESENCE
232
STORES

RETAIL FLOOR AREA
28,502
SQUARE METERS (SQ.M.)

STOCK KEEPING UNITS (SKUs)
13,000
ACROSS NINE PRODUCT CATEGORIES

EMPLOYEES
795

NEW TECH BRANDS IN 2023
12

BRANDS IN PORTFOLIO
115

OUR BUSINESS

Our product offerings span across nine categories: PCs, printing, communication, storage, networking, peripherals, components, accessories, and software.

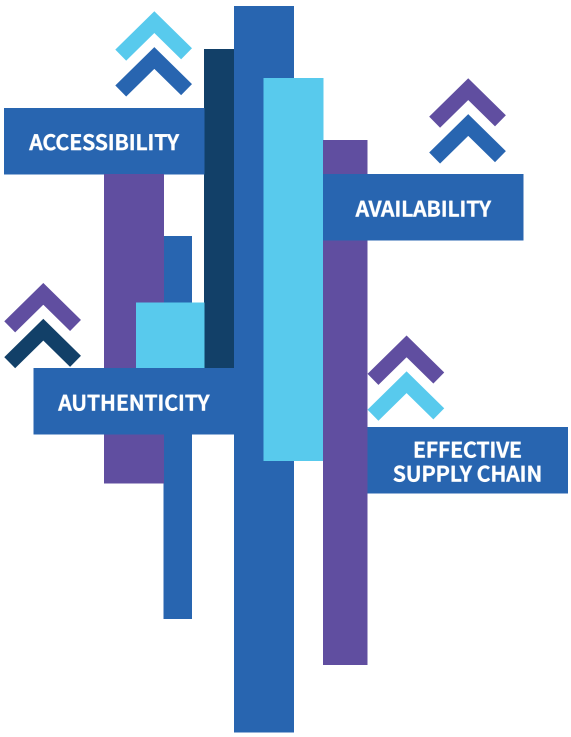
OUR STORES

OCTAGON	MICRO VALLEY	GADGET KING	OCTAGON Mobile	CONCEPT STORES
Carries the complete selection of products we offer covering nine categories	Specializes in do-it-yourself PC components, gaming PCs, and peripherals	Features accessories and peripherals	Focused on communication devices and mobile-related accessories	Dedicated to full product portfolio of a single brand. Currently for Acer, Brother, HP, Silvertec, and TP-Link
NUMBER OF STORES				
172	23	14	7	16

OUR STRATEGY

Our strategy is centered on four strategic cornerstones: accessibility, availability, authenticity, and effective supply chain. These cornerstones position us for sustainable and profitable growth into the future.

- Expand our store network and penetrate markets with high potential by adding 50 stores per year from 2023 to 2027 or a total of 25,000 sq.m. in Metro Manila, CALABARZON, Central Luzon, Western and Central Visayas, and Mindanao;
- Add nine warehouses and distribution facilities in key locations: Manila, Cabanatuan, Dagupan, Naga, Palawan, Iloilo, Bacolod, General Santos, and Zamboanga;
- Ensure stock availability and wide product range in existing and adjacent categories and aligning inventory and marketing with anticipated demand and product lifecycle;
- Develop new store formats to meet the distinctive demands of certain markets, complement current offerings, and facilitate new in-store experience; and
- Excel in omni-channel experience and raise brand recognition through enhanced digital presence and loyalty program, impactful marketing strategy, and improved customer engagement.



Letter to Shareholders

Fellow Shareholders,

Upson is a company with many real strengths.

- We operate in a resilient industry and have a long history of success in adapting to periods of change and uncertainty.
- We are present in almost every region of the Philippines—from urban to rural areas.
- Our portfolio of quality products at different price points is the most comprehensive in the market.
- Our continued investments in the supply chain allow us to maintain a leading position and support our expanding footprint.
- Most of all, our people are engaged and properly equipped.

Yet we must push ourselves further to reach our full potential, and so we have set out a strategic plan to close that gap.

TRANSFORMATION

2023 was a year of investment and transition for Upson. We became a public company.

On 3 April 2023, Upson shares began trading on the Philippine Stock Exchange after raising ₱1.65 billion through initial public offering of 687 million common shares at ₱2.4 per share. The offering consisted of 625 million primary and 62.5 million secondary shares with net proceeds of ₱1.4 billion for store network expansion.

We hit the ground running with the addition of 25 new stores during the year, 12 of which in the fourth quarter.

Upson rings the opening bell at the Philippine Stock Exchange

We opened 16 Octagon branches, three Micro Valley, one Octagon Mobile, and five concept stores under the Acer and TP-Link brands. Of these new stores, over 50% were in the National Capital Region and North and Central Luzon. We ended the year with 232 stores.

With close to 30 years of operations, we know that essential to our store network expansion is logistics and supply chain management. It matters because it not only mitigates risks and improves operations resilience, but also strengthens our competitive advantage by boosting efficiency and optimizing costs and stock levels. To this end, our recent investments centered around the construction of our additional warehouse in Manila as well as some improvements and fixtures for new sites in Dagupan and Iloilo and for existing facilities in Cebu and Davao.

To broaden our product offerings, we introduced 12 technology brands including AUKEY, ESR, Garmin, MOMAX, Verbatim, MONOCOZZI, and Cricut. We also started to set up Apple corners in select stores which brought customers greater access to the brand. We now carry a total of 115 technology brands in our portfolio.

In everything we do, we work alongside a broad range of partners, which is why we are proud that Upson continues to be widely recognized by our suppliers. We were once again awarded by Acer for the thirteenth consecutive year and by Asus for the seventh year in a row; named one of the President's Club awardees by Lenovo; and "Retail Partner of the Year" by HP, among other recognitions.

PERFORMANCE HIGHLIGHTS

Financial highlights (₱ in millions, except as otherwise stated)	**2023**	**2022**	**2021**	**2020**	**2019**
Revenues	**10,010.4**	9,462.0	8,567.9	8,152.2	7,569.6
Gross profit	**2,077.4**	2,179.2	1,885.6	1,671.3	1,581.1
Gross profit margin	**20.8%**	23.0%	22.0%	20.5%	20.9%
EBITDA	**1,016.6**	1,072.0	957.1	824.4	725.3
EBITDA margin	**10.2%**	11.3%	11.2%	10.1%	9.6%
Net income	**464.2**	537.9	403.6	206.7	85.3
Net income margin	**4.6%**	5.7%	4.7%	2.5%	1.1%
Earnings per share	**0.16**	0.22	0.30	0.15	0.06
Inventory turnover (days)	**138**	119	95	81	85
Operating data					
Number of stores	**232**	207	183	175	166
Retail floor area (sq.m .)	**28,502**	25,192	22,667	21,354	20,543

2023 FINANCIAL PERFORMANCE

For the first time in our history, revenues surpassed ₱10 billion, up ₱548.4 million or 5.8% from a record the previous year. This growth was fueled by the performance of new stores which have operated for less than one year and, to a lesser extent, of existing stores whose sales increased 1%.

By product category, computers were the primary driver of growth led by mid-range laptops. Printing and communication also contributed positively, partly offset by decreases in sales of storage and components.

By geography, markets remained broadly stable with Visayas posting the fastest growth followed by North Mindanao.

The cost of inventories sold was up 8.9% to ₱7.9 billion, resulting in a gross margin of 20.8% compared with 23% in 2022. The margin contraction was due to revenue mix and lower product margin rates from increased promotions, including product bundling and price discounts.

Operating expenses were up 9.5% to ₱1.7 billion in support of our strategic priorities, specifically store and warehouse network expansion. These higher

RECORD REVENUE

₱10B

DIVIDEND PER SHARE

₱0.06

(2022: ₱0.04416)

DIVIDEND PAYOUT RATIO

40%

expenses were mostly lease payments, contracted and other services, depreciation and amortization, personnel-related costs, and utilities. As a percentage of sales, operating expenses were slightly up from 16.2% to 16.7% in 2023.

As a result of lower gross margin and pre-opening costs, net income declined 13.7% to ₱464.2 million which was helped by other income mainly through promotional support from suppliers. These gains were from volume-based rebates and sell-out incentive programs as well as inventory price protection to drive demand and replacement cycles.

Based on the company's operating results and management's outlook for the current year, our Board of Directors declared a dividend of ₱187.5 million or ₱0.06 per share, rising 36% from last year and marking the fourth consecutive year that the company has paid cash dividends.

BALANCE SHEET

At 31 December 2023, our balance sheet remains strong with the liquidity to meet our operational requirements and to invest in future growth.

Total assets rose 33% to ₱6.2 billion on account of higher current assets. Inventories grew 26% to ₱3.4 billion on due to multiple factors, including: planned inventory build-up based on the nationwide expansion; front-loading of orders ahead of the Lunar New Year when factories close for the holidays in China; and front-loading of orders for provincial branches before the end of the year holiday shutdown and because of limited vessel availability for Visayas and Mindanao. Additionally, cash and cash equivalents climbed 70% from ₱801.4 million at the beginning of the year to ₱1.4 billion reflecting the proceeds from the IPO. Unapplied proceeds amounted to ₱983 million at year-end.

Total liabilities decreased 5.9% to ₱3.4 billion, primarily attributable to dividend payments of ₱275.3 million, while total stockholders' equity surged 167% to ₱2.8 billion following our IPO.

Net cash provided by operating activities was ₱68.4 million, net cash used in investing activities was ₱219.5 million, and net cash provided by financing activities was ₱710.5 million.

Capital expenditures were ₱230.6 million, representing 2.3% of revenues.

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE

In the following ESG section, we summarize how we put our purpose and values into practice. We discuss our management approach and disclose relevant metrics related to our impact in these areas. We encourage you to review the report.

LOOKING AHEAD

Moving into 2024 and beyond, we will continue to ensure that we serve our customers better to realize the benefits of our additional scale, and we will build on our priorities to expand our margins and enhance our long-term returns.

On behalf of Upson's leadership team, we would like to thank our colleagues on the Board for their valuable guidance and our people for their dedication and contribution over the past year. We are proud of what our teams have delivered towards our goal and look forward to achieving more together.

Finally, to each of our shareholders, we offer our sincere thanks and gratitude for your trust and support. As the Philippine economy sustains momentum, digitalization will not only create new opportunities, it will also become core to providing development solutions and transforming lives. Our commitment is to enable people to capture these opportunities, and we are confident that we have the foundation to get it done with speed and stability.

"Moving into 2024 and beyond, we will continue to ensure that we serve our customers better to realize the benefits of our additional scale, and we will build on our priorities to expand our margins and enhance our long-term returns."

LAWRENCE O. LEE
Chairman

ARLENE LOUISA T. SY
President and Chief Executive Officer

Environmental, Social, and Governance

OUR APPROACH

As one of the Top 1000 corporations in the Philippines and a leading IT retailer, we have a unique position to make a positive impact on the future and well-being of our nation and the environment.

With the scale of our operations, we are keenly aware of the range of challenges that consumers face. Also, it gives us the opportunity to build our own resilience and competitiveness across our business and markets, our operations, and our supply chain.

Led by high-performance teams embodying our values of unity, integrity, and commitment, our ambition is to steer the country towards technological advancement while growing sustainably and profitably. Today, we have a store network of 232 branches and leading brands Octagon, Micro Valley, Gadget King, and Octagon Mobile as well as concept stores of Acer, Brother, HP, Silvertec, and TP-Link. This strength comes with responsibility especially now that we are a public company. It requires us to consider broader stakeholders. And it requires us to have an ongoing communication with them not only to inform but also to learn and do better.

In this regard, we want to be accessible and transparent with all our stakeholder groups, internal and external, to align our business and impacts with their expectations and to deliver sustainable value in the long term. As part of this focus, we will aim to have discussions with them around wider themes relating to environmental, social, and governance (ESG) risks and opportunities. We believe this is an important step forward in developing our sustainability strategy, our reporting and disclosure, and our approach to ESG governance and risk management. It will enable us to examine how ESG topics and issues affect our economic value creation as well as our impact on various stakeholders. Over time, it will allow us to embed sustainability in our strategy, implement the same, and continuously improve. We expect to be able to share more details of these in our future reports.

Looking inward

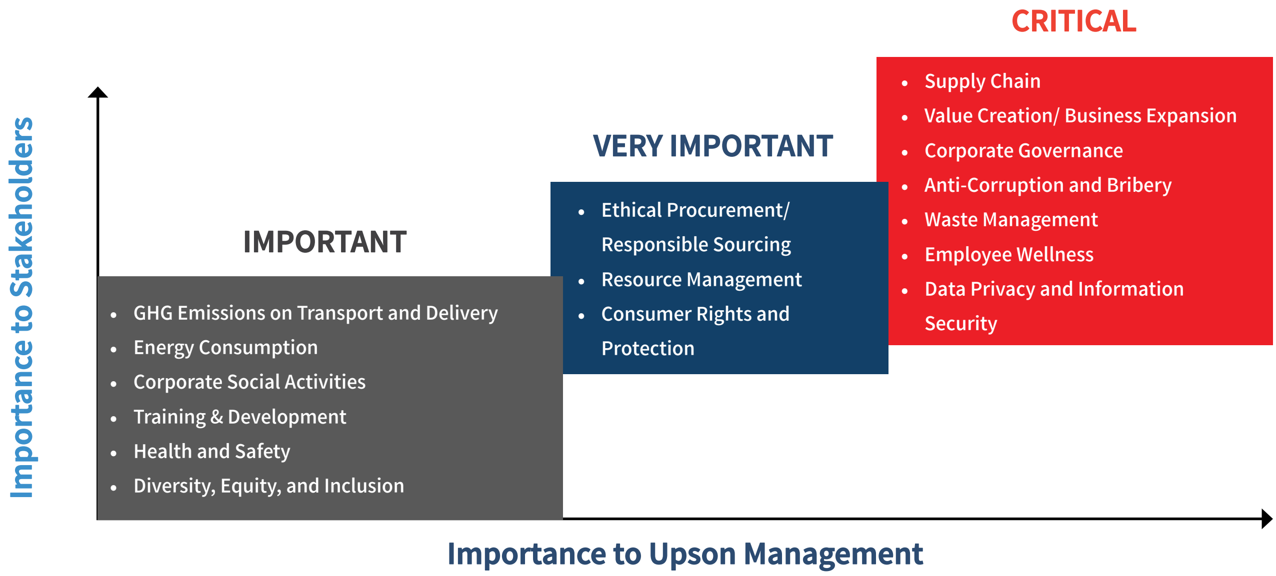
Under the oversight of our Board, we strive to ensure that sustainability is part of, and aligned with, our overall strategy and decision-making process. Our Board, including our President and CEO, is supported by our Chief Operations Officer, our head of human resources, and other members of our management team who are accountable for embedding and driving sustainability in the business for maximum impact. Ultimately, though, our employees share the responsibility for executing our initiatives and are empowered to do so.

Looking outward

To gain external perspective, we recognize that we still need to evolve our approach over the next few years to better understand the areas of most importance to our stakeholders and identify new or emerging expectations and opportunities. We seek to collaborate with subject matter experts, conduct a benchmarking of leading companies from within and outside our industry, consult global frameworks and disclosure standards, and connect with stakeholders for insights and feedback, including using a combination of surveys, sessions with interest groups, and existing touch points (e.g. our customer management system).

MATERIALITY ASSESSMENT

To determine the areas that are material to us, our assessment methodology includes desk-based research to understand the context of sustainability in our sector, internal stakeholder interviews, and discussions of preliminary findings. Our material topics are as follows:



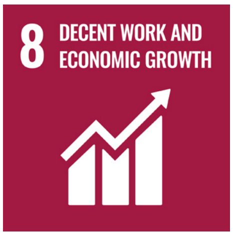
We have further grouped the material topics into the pillars of sustainability in the table below.

PILLAR OF SUSTAINABILITY	Important	Very Important	Critical
Economic		Ethical Procurement/ Responsible Sourcing	Supply Chain Value Creation/ Business Expansion Corporate Governance Anti-Corruption and Bribery
Environmental	GHG Emissions on Transport and Delivery Energy Consumption	Resource Management	Waste Management (including compliance with Extended Producer Responsibility)
Social	Corporate Social Activities (Impact on Local Community) Training and Development Health and Safety Diversity, Equity, and Inclusion	Consumer Rights and Protection	Employee Wellness Data Privacy and Information Security

OUR COMMITMENTS

We support the United Nations Sustainable Development Goals (SDGs), a universal call to action to end poverty, protect the planet, and promote peace and prosperity for all people by 2030.

By delivering on our purpose, we contribute, in particular, to UN SDG Goal 5: achieving gender equality, Goal 8: promoting inclusive and sustainable economic growth, employment and decent work for all, Goal 9: fostering innovation, and Goal 12: ensuring responsible production. As we develop ESG initiatives, we will continually evaluate our contributions to the SDGs and ensure that we do our part in creating long-term sustainable value for our stakeholders.



ECONOMIC

OUR IMPACT

Our economic value generated in terms of revenues increased 5.8% to ₱10.0 billion in 2023, while value distributed amounted to ₱11.4 billion. Our net income was ₱464.2 million. More detail on our performance can be found in the Letter to Shareholders section of this report.

DISCLOSURE		2023	2022	Units
Direct economic value generated and distributed	Direct economic value generated (revenue)	10,010,358,499	9,461,981,130	PHP
	Direct economic value distributed			
	a. Operating costs	1,675,980,429	1,530,103,748	PHP
	b. Employee wages and benefits	394,459,753	373,821,521	PHP
	c. Payments to suppliers, other operating costs	8,543,787,636	8,374,689,954	PHP
	d. Dividends given to stockholders and interest payments to loan providers	532,626,605	177,519,209	PHP
	e. Taxes given to government	209,869,486	428,045,037	PHP
	f. Investments to community (e.g., donations, CSR)	0	0	PHP
Proportion of spending on local suppliers	Percentage of procurement budget used for significant locations of operations that is spent on local suppliers	98.3	98.55	%
	Percentage of procurement budget used for significant locations of operations that is spent on foreign suppliers	1.7	1.45	%
Training on anti-corruption policies and procedures	Percentage of employees to whom the organization's anti- corruption policies and procedures have been communicated to	100	100	%
	Percentage of business partners to whom the organization's anti-corruption policies and procedures have been communicated to	100	100	%
	Percentage of directors and management that have received anti-corruption training	100	100	%
	Percentage of employees that have received anti-corruption training	100	100	%
Incidents of corruption	Number of incidents in which directors were removed or disciplined for corruption	0	0	#
	Number of incidents in which employees were dismissed or disciplined for corruption	0	0	#
	Number of incidents when contracts with business partners were terminated due to incidents of corruption	0	0	#

OUR MANAGEMENT APPROACH

Accessibility. We are the largest IT retailer in the Philippines by sales, market share, and store count, according to the study of University of Asia and the Pacific –Center for Research and Communication. We are present in 16 out of the 17 regions in the country with 232 stores and are also accessible in popular e-commerce platforms, such as Lazada, Shopee, and Pick-a-roo. As part of our growth strategy, we target to open 250 additional stores or a total retail space of 25,000 sq.m. from 2023 to 2027. In 2023, we opened 25 stores, in addition to the 24 stores that we opened in 2022.

Availability. We maintain a comprehensive (13,000 SKUs across nine categories) and frequently updated assortment of products (+200 new SKUs per month), which allow us to be responsive to prevailing market needs and local preferences. Our exclusive product brands (14 in total) also make us more attractive to consumers and competitive in the marketplace. Added to this, we introduced 12 technology brands in 2023 and ended the year with a total of 115 brands in our portfolio.

Authenticity. We differentiate our offerings through product integrity and post-sales support. Across our store network, we sell only authentic and untampered products which builds confidence and loyalty among stakeholders. For customers, this reinforces positive perception towards us knowing that their purchases are guaranteed by technology brands that are among the most respected names globally. For suppliers, this positions them to carry out reliable customer service and support that is consistent with their brand image.

Effective supply chain. We have a highly effective supply chain that delivers operational excellence and competitive pricing. Our competencies are fueled by:

- In-depth know-how which results in operational efficiencies, access to mall-based spaces, and on-time acquisition and renewal of business requirements, which in turn enable the timely roll-out and operation of new stores
- Strategically located warehouse network and in-house logistics assets including six warehouses: Manila (3), Cebu, Cagayan de Oro, Davao City, and 32 delivery trucks and vehicles
- Dynamic supplier collaboration that allows mutual support between parties which, among other things:
  - reduces our costs and protects our margins through volume incentives, bundling programs, favorable payment terms, and direct shipments to our regional warehouses and certain store locations;
  - enhances our employee training and development;
  - assists us in obtaining products that may be in short or limited supply; and
  - aids our market research efforts.

Climate-related risks and opportunities

Natural disasters such as earthquakes, typhoons, floods, volcanic eruptions, and fires may disrupt our operations in the form of utility shortages, power shutdowns, and damage to inventory. To manage these risks, we carry insurance for our products and warehouses to compensate us for certain natural catastrophe-related losses. We also operate regional warehouses in Cebu, Davao, and Cagayan de Oro, which are under lease agreements, to decentralize our distribution centers and address business disruptions resulting from climate-related events.

As the backbone of our expansion plan, we will add nine warehouses and distribution facilities in Manila, Cabanatuan, Dagupan, Naga, Palawan, Iloilo, Bacolod, General Santos, and Zamboanga in the coming years.

Procurement practices

We have built a strong relationship with more than 100 suppliers, having partnered with our top 15 suppliers for 20 years and being a recipient of numerous awards and recognition.

We source our products mainly through purchase orders, a document that contains detailed information about the items that are to be purchased such as the types of goods, quantity, and price. It also indicates the details of the supplier, payment terms which are usually 60–90 days, discounts, entry date of order, delivery date, and cancellation date, if any. Most orders are delivered to our head office in Manila, while others have special arrangements and are sent to our warehouse in Visayas and Mindanao.

To meet consumer demand, we closely monitor and manage our inventory levels to ensure we have adequate quantities. Key elements to our inventory management approach include the following:

- monitoring and forecasting of consumer demand—typically in the range of six months to one year;
- monitoring and adjustment of inventory position—typically two to three months;
- maintaining positive vendor relationships; and
- price protection agreements with suppliers relating to certain products.

As we continue to grow, further expanding our nationwide footprint, it is essential that we secure additional locations. Our good relations with mall operators over many years have helped us gain access to mall-based spaces and roll out new stores in a timely manner. We expect this to remain.

Bringing in new technology brands is equally important in our approach. During 2023, we introduced 12 brands including AUKEY, ESR, Garmin, MOMAX, Verbatim, MONOCOZZI, and Cricut to broaden our existing offerings. We also started to set up Apple corners in select stores which brought customers greater access to the brand. We now carry a total of 115 technology brands in our portfolio.

Another accomplishment we are proud of is achieving common goals with our suppliers. We were once again awarded by Acer for the thirteenth consecutive year and by Asus for the seventh year in a row; named one of the President's Club awardees by Lenovo; and "Retail Partner of the Year" by HP, among other recognitions.

Anti-corruption

We run our business with fairness and transparency. To maintain this, we have a management framework in place that includes internal control and audit processes, Manual on Corporate Governance, and Employee Handbook and Code of Ethics and Conduct. Together, the Manual and the Employee Handbook and Code of Ethics and Conduct set out our policies and procedures related to anti-bribery, anti-corruption, and conflicts of interest, as well as other guidelines and employment practices. Our Employee Handbook and Code of Ethics and Conduct applies to all employees including executive officers, and we require them to submit an acknowledgment confirming that they have read the Code and understand their obligations outlined in it. Meanwhile our Whistleblower Policy, found in the Manual, provides a safe space for asking questions and reporting concerns or violations.

ENVIRONMENT

OUR IMPACT

Retailers like us require energy to operate our facilities and warehouses as well as product packaging which contribute to environmental impacts, including climate change and pollution. In managing overall efficiency, we prioritize environmental issues that are most material to our business including resource management, environmental impact management, and environmental compliance.

Our stores and warehouses primarily contribute to our environmental impact. Lighting and Heating, Ventilation, and Air Conditioning (HVAC) systems are the main uses of energy in our stores which are necessary for a pleasant in-person shopping experience. Transportation and distribution of products also factor into our energy consumption and air emissions. Meanwhile, the solid waste we generate comes from packaging materials, obsolete products, and other materials associated with our operations. Obsolete electronics, such as old smartphones, laptops, and other electronics that are no longer in use, may generate hazardous waste which may contain toxic metals including lead, cadmium, and mercury.

As part of our ongoing effort to strengthen the quality of our reporting, we are in the process of measuring our greenhouse gas emissions and hazardous wastes, and will publish the results once we have established our baseline data which will cover sourcing of our products to distribution to end-customers.

In 2023, there were no violations issued or penalties imposed on us with respect to non-compliance with environmental laws and regulations.

DISCLOSURE		2023	2022	Units
Energy consumption	Renewable sources	0	Data Not Available	GJ
	Gasoline	4,365[1]	4,016[2]	GJ
	LPG	Data Not Available	Data Not Available	GJ
	Diesel	Data Not Available	Data Not Available	GJ
	Electricity	8,653,048	7,960,804	kWh
Water consumption	Water withdrawal	Data Not Available	Data Not Available	
	Water consumption	1,590	1,463	
	Water recycled and reused	0	0	m^3
GHG	Direct (Scope 1) GHG Emissions	Data Not Available	Data Not Available	tonnes CO_2e
	Energy indirect (Scope 2) GHG Emissions	Data Not Available	Data Not Available	tonnes CO_2e
	Emissions of ozone-depleting substances (ODS)	Data Not Available	Data Not Available	tonnes
Solid waste	Total solid waste generated	3,800 plastic waste (3,200 rigids, 600 flexibles)	Data Not Available	
	Reusable	760 (based on 20% recovery)	Data Not Available	
	Recyclable	760 (based on 20% recovery)	Data Not Available	kg

1 Based on the given conversion factor of 0.0342 gigajoules per liter, 119,698 liters of gasoline would yield approximately 4,093.68 gigajoules of energy

2 Based on the given conversion factor of 0.0342 gigajoules per liter, 117,429 liters of gasoline would yield approximately 4,016.83 gigajoules of energy

DISCLOSURE		2023	2022	Units
Hazardous waste	Total weight of waste generated	Data Not Available	Data Not Available	kg
	Total weight of waste transported	Data Not Available	Data Not Available	kg
Non-compliance with environmental laws and regulations	Total amount of monetary fines for non-compliance	0	0	PHP
	No. of non-monetary sanctions for non-compliance	0	0	#
	No. of cases resolved through dispute resolution mechanism	0	0	#

OUR MANAGEMENT APPROACH

Our environmental management practices are in accordance with applicable laws and regulations, including Republic Act 9003 or the Ecological Solid Waste Management Act of 2000, which adopts a systematic and comprehensive ecological waste management program that protects public health and environment. To address any eventual increase in our waste disposal level in the future, we commit to develop policies and procedures pursuant to Republic Act 6969 or the Toxic Substances and Hazardous and Nuclear Wastes Control Act of 1990, which covers proper management of chemicals and hazardous wastes in all aspects of its life cycle, from importation to disposal.

In August 2022, Republic Act 11898 or the Extended Producer Responsibility (EPR) Act of 2022 took effect while its Implementing Rules and Regulations was issued in January 2023. This law institutionalizes the extended producer responsibility on plastic packaging waste and amends for this purpose Republic Act 9003. It requires obliged enterprises, which covers us, to prepare and register their EPR Programs with the National Solid Waste Management Commission through the Department of Environment and Natural Resources. Such programs are for the reduction and/or recovery of plastic packaging waste for reuse, recycling, treatment, or proper ecological disposal.

Under this Act, the plastic packaging materials applicable to us are rigids, such as gift box and PET blister packing, and flexibles, such as bubble wrap and stretch film. Per its requirements, our minimum plastic waste recovery and diversion targets are 20% for 2023, 40% for 2024, 50% for 2025, 60% for 2026, 70% for 2027, and 80% for 2028 onwards. In this respect, the summary of our registered EPR programs is as follows:

For waste reduction

- Adoption of reusable packaging products or redesign of packaging products to improve its reusability, recyclability, or retrievability. Since 2015, we have been actively working to minimize our plastic waste footprint with responsible packaging. Finally in October 2022, we fully transitioned to a reusable alternative, eliminating single-use plastic and paper bag packaging across our Octagon, Micro Valley, and Gadget King stores. Made from non-woven polypropylene, our shopping bag today is more durable, can withstand handling and transport, and can be used multiple times. It also takes less energy to produce than cotton bags, resulting in less carbon emissions.
- Implementation of information and education campaign, such as guides for responsible consumption and waste management, and inclusion of recycling symbols; and
- Eco-labelling

For waste recovery and diversion

- Co-processing with Republic Cement & Building Materials, Inc. (RCBMI), our waste diverter partner, to use plastic waste in cement manufacturing. This co-processing promotes the conservation of non-renewable energy sources and raw materials through the reuse or recovery of thermal and mineral properties of qualified waste materials while manufacturing cement in a single combined operation. The recovered heat content from the qualified wastes partially replaces the heat from traditional fossil fuels such as coal and petcoke, while the recovered minerals similar to the chemical composition of sand and clay replace raw materials used in cement production.

  RCBMI is responsible for all documentary evidence to support that our reported waste diversion is accurate and fully traceable, and it will issue a Certificate of Acceptance and Disposal or Waste Diversion Certificate. This documentation together with our annual EPR Compliance Audit Report (ECAR) is then subject to the audit of an independent third-party auditor.

  Overall, the independent third-party auditor will verify the waste footprint generation, recovery, and diversion, including the verification and validation of the Sworn Waste Diversion Certificates, Plastic Credit Certificates and Plastic Waste Diversion Certificates.
- Transportation plan in collaboration with RCBMI's co-processing waste transportation and diversion plan

For both waste reduction and waste recovery and diversion schemes

Geographic rollout plan with the following phases:

- 2023: Metro Manila, Metro Cebu, Metro Davao;
- 2024: Other Metropolitan Areas (Metro Angeles, Metro Bacolod, Metro Baguio, Metro Batangas, Metro Cagayan de Oro, Metro Dagupan, Metro lloilo-Guimaras, Metro Naga, and Metro Olongapo);
- 2025: Other highly urbanized, independent component cities, and 1st class component cities;
- 2026: 2nd to 6th class component cities;
- 2027: 1st to 3rd class municipalities;
- 2028: 4th to 6th class municipalities

Upson participates in Brother's trade-in programs, encouraging responsible waste management

SOCIAL

OUR IMPACT

DISCLOSURE			2023	2022	Units
Employee data	Total number of employees		795	823	#
	a. Female		244	245	
	b. Male		551	578	
	Attrition rate		3.52%	2.25%	Rate
	Ratio of lowest paid employee against minimum wage		Data Not Available	Data Not Available	Ratio
Employee benefits	SSS	Female	41.39%	9.84%	Percentage of employees who availed for the year
		Male	32.85%	20.65%	
	Philhealth	Female	9.43%	1.94%	
		Male	1.09%	3.52%	
	Pag-ibig	Female	30.33%	4.13%	
		Male	25.95%	14.34%	
	Parental leaves	Female	7.38%	3.26%	
		Male	3.09%	2.94%	
	Vacation leaves	Female	Data Not Available	Data Not Available	
		Male	Data Not Available	Data Not Available	
	Sick leaves	Female	2.05%	1.22%	
		Male	1.09%	2.08%	
	Medical benefits aside from PhilHealth	Female	2.05%	28.45%	
		Male	1.09%	71.55%	
	Company stock options	Female	0	0	
		Male	0	0	
	Telecommuting	Female	Data Not Available	Data Not Available	
		Male	Data Not Available	Data Not Available	
	Flexible-working hours	Female	Data Not Available	Data Not Available	
		Male	Data Not Available	Data Not Available	
Employee training and development	Training hours	Female	620	490	Hours
		Male	1,344	1,156	
	Average training hours per employee	Female	2.7	2	
		Male	2.3	2	
Labor-management relations	Number of consultations conducted with employees concerning employee-related policies		Data Not Available	Data Not Available	#
Diversity and equal opportunity	% of female workers in the workforce		30.69%	29.77%	%
	% of male workers in the workforce		69.31%	70.23%	
	Number of employees from indigenous communities and/or vulnerable sector[3]		0	0	#

3 Vulnerable sector includes, elderly, persons with disabilities, vulnerable women, refugees, migrants, internally displaced persons, people living with HIV and other diseases, solo parents, and the poor or thebase of the pyramid (BOP; Class D and E).

DISCLOSURE		2023	2022	Units
Occupational health and safety	Safe man-hours	1,728	1,728	Man-hours
	Number of work-related injuries	15	15	#
	Number of work-related fatalities	0	0	#
	Numberof work-related ill-health	0	0	#
	Number of safety drills	Data Not Available	Data Not Available	#
Labor laws and human rights	Number of legal actions or employee grievances involving forced or child labor	0	0	#
Available policies	Forced labor policy	Yes	Yes	
	Child labor policy	Yes	Yes	
	Human rights policy	Yes	Yes	
Supply chain management Considered in supplier accreditation	Environmental performance	Yes	Yes	
	Forced labor	Yes	Yes	
	Child labor	Yes	Yes	
	Human rights	Yes	Yes	
	Bribery and corruption	Yes	Yes	
Significant impacts on local communities	Operations with significant (positive or negative) impacts on local communities (exclude CSR projects)	Data Not Available	Data Not Available	
Customer satisfaction	Customer satisfaction	Data Not Available	Data Not Available	
Health and safety	Number of substantiated complaints on product or service health and safety	0	0	#
Marketing and labeling	Number of substantiated complaints on marketing and labeling[4]	0	0	#
	Number of complaints addressed	Not Applicable	Not Applicable	
Customer Privacy	Number of substantiated complaints on customer privacy[5]	0	0	#
	Number of customers, users, and account holders whose information is used for secondary purposes	Not Applicable	0	#
Data security	No. of data breaches, including leaks, thefts, and losses of data	0	0	#

4 Substantiated complaints include complaints from customers that went through the organization's formal communication channels and grievance mechanisms as well as complaints that were lodged to and acted upon by government agencies.

5 Substantiated complaints include complaints from customers that went through the organization's formal communication channels and grievance mechanisms as well as complaints that were lodged to and acted upon by government agencies.

OUR MANAGEMENT APPROACH

Employees

We benefit from the vision, industry experience, entrepreneurial drive, and strong execution capabilities of our leadership team which enable us to grow sustainably. Their expertise in selecting a high-quality mix of products that is relevant to rapidly evolving technology trends as well as consumer preferences amplifies our ability to respond to such developments and emerging industry practices in a cost-effective and timely manner, ultimately providing us with competitive advantages which are difficult for competitors to replicate.

Our team members, who are based across the country, complement our management team and bring diverse skills that make our organization and culture stronger. At year-end, key functions, such as sales and marketing, and procurement and supply chain management, comprised approximately 70% of our total employees. As we are partners in shared success, we adopt a holistic approach in investing in our people.

Hiring and Benefits. We invest in our team by giving them opportunities for success. This starts with placing the right employees for the right jobs and giving them compensation and benefits which we believe are competitive and are designed to support the financial well-being of our employees and their families. For compensation, we apply the principles of "equal pay for equal work" and "no work, no pay." For rewards, our approach is performance-based and is regularly reviewed, which boosts our efforts to attract and retain talent. For example, at the store level, our in-store management teams are empowered and incentivized to drive the performance of their respective stores based on sales and profitability.

Training and Development. We manage talent development and engagement by continuously building skills at all levels and improving the work conditions and environment. In view of this, we equip our team members with training and development programs for different job levels, including training tailored to specific job duties, knowledge of the latest trends in consumer behavior and preferences, and after-sales support. We also arrange product training for store personnel with suppliers at least twice a year.

In 2023, our external consultant conducted technical training sessions in data privacy, internal audit, and Extended Producer Responsibility.

Diversity and Equal Opportunity. We look at diversity and inclusion through the lens of our core values. In unity, we grow and succeed together with a spirit of teamwork and excellence. Living by that mindset, we foster an environment where our people reflect the diversity of culture of the communities in which we work. And by and large we are in every province in the country. That creates a sense of belonging, one that inspires our people to team up and lead inclusively in daily interactions.

We intend to take meaningful steps in advancing our priorities in this area. This includes increasing women representation at all levels including in leadership roles, ensuring their full and effective participation, and implementing inclusive hiring practices through diverse slate approach, gender-neutral job descriptions, and structured interviews.

Supply Chain Management

We have focused on the important ways we can strengthen the effectiveness of our supply chain and optimize our inventory levels and distribution network. Examples include adopting an extensive supplier accreditation and approval process and building a product roadmap.

Our vendor accreditation process involves a range of areas such as service provision, safety and performance history, financial capability, experience, insurance, and evidence of training and certifications. The details of this process can be found in our Accounting Manual Policies and Procedures. We also consider the following sustainability topics when accrediting suppliers: environmental performance forced labor; child labor; human rights; and bribery and corruption

Through our regular interaction and consultation with our suppliers, we gain market intelligence that is helpful in aligning our product availability with anticipated demand and product lifecycle. We then take this a step further to improve our planning and analysis, strategy, and coordination accordingly.

Additionally, we are increasing the number of our warehouses from six to 15 over the next five years, which we believe sets the stage for our future growth. We plan to use software applications on the warehouse floor and automate day-to-day processes to optimize operations and boost efficiency. This includes organizing warehouse space, receiving, and scheduling delivery, as well as tracking of goods as they enter, move, and exit the facility.

Community

As an IT retail company with operations across the country, our entry into provincial centers can mean that the local economies in these areas are primed for greater activity from the jobs we create, and the productivity that technology brings. This also means that with an expanded store network, we will become a member of several local communities. That is why we will pursue to be more involved through social activities and support to various local government units and agencies and civil and professional groups.

Customers

We recognize that to have the greatest impact on customers, we must focus our resources on the opportunities where we can deliver what they want and expect in the most meaningful way.

Our ongoing emphasis on store network expansion and new store formats affirm our customer-centered approach, complement our current offerings, and facilitate new in-store experiences.

In 2020, we made our products available in popular third-party e-commerce channels such as Lazada, Shopee, and Pick-a-roo.

In 2021, we opened concept stores to provide customers with an exclusive and full product suite of a single brand, including Acer, HP, Brother, and Silvertec. In the same year, we introduced Octagon Mobile stores which focus on communication and connectivity devices such as mobile phones, tablets, networking products, and related accessories.

In 2022, we opened 24 new stores. In 2023, opened another 25 stores including our first TP-Link concept store, which we consider an important milestone as we continue to build partnerships and identify markets with potential for new store formats and merchandise. We also added 12 technology brands to our portfolio such as AUKEY, ESR, Garmin, MOMAX, Verbatim, MONOCOZZI, and Cricut.

Customer satisfaction. Accessibility, availability, authenticity, and effective supply chain are at the core of what we promise to customers. From physical stores to online channels, we give everyone, everywhere more ways to find, get and experience the latest technology products. What we offer is not only the most complete and up-to-date product portfolio at competitive prices but also support when issues arise. That is what we mean by Nationwide Reach.

Our suppliers cover warranties and repairs, but customers direct and communicate with us for these services. In managing this effectively, our policies and procedures for product returns and exchanges play a central role as with the continuous training of our teams for handling support services, and our open lines of communication with suppliers.

We are aligned and compliant with Republic Act 7394 or the Consumer Act of the Philippines, which protects the interests of consumers, promotes their general welfare, and establishes standards of conduct for business and industry. Our Warranty Terms and Conditions policy is specifically displayed in our stores, stating we are obliged to honor warranties and grant corresponding remedies to consumers. In enforcing these remedies, we require customers to prove the sale transaction. In the absence of an official receipt, we accept other alternative proof.

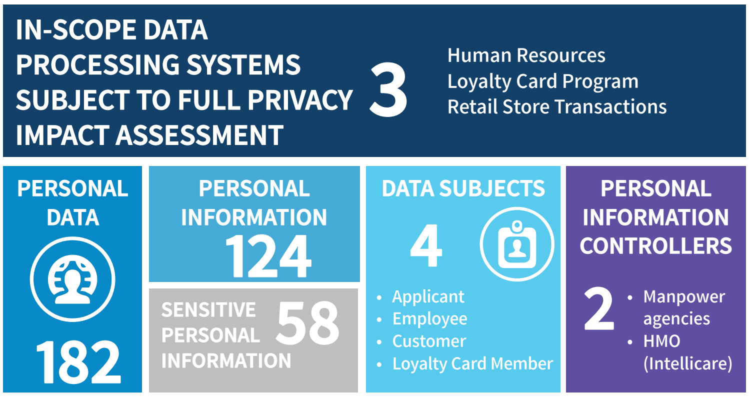
Health and Safety. We strive to maintain a safe environment for our employees and customers. Our workplace practices are in compliance with laws and regulations such as Republic Act 11058 or the Occupational Safety and Health Standards which requires identifying and addressing workplace hazards and health and safety issues and providing suitable training to employees on these.

Marketing and labeling. Our brands have wide recognition, and we protect them through a variety of efforts. We maintain registered trademarks for Octagon, Micro Valley, Gadget King, Octagon Mobile, Gadget World, and Uniso. We use our broad network of stores as a venue to demonstrate our accessibility, availability, and authenticity, which we consider an effective marketing strategy to drive awareness, traffic, and sales. At the same time, we look for opportunities to build our brand image further and differentiate ourselves in the marketplace by enhancing customer acquisition and engagement through ongoing initiatives related to traditional, digital, and omni-channel marketing. We also build on our relationship with technology brands and distributors to enhance our marketing initiatives.

Customer privacy and Data security. With processes moving from paper-based to electronic and cyber threat landscape ever changing, our information security capabilities must also adapt. To support this, we continue to carefully select secure technologies, implement effective policies, provide employee training, and stay vigilant against security threats.

Increasingly, we dedicate resources for maintaining appropriate measures for cybersecurity and protecting our customers' information in accordance with Republic Act 10173 or the Data Privacy Act of 2012. For example, our website contains our Data Privacy Notice explaining what data we collect and how we collect, use, and share it. The contact information of our Data Protection Officer (DPO) is also on our website, and we monitor the email address dpo@upson.com.ph.

In 2023, we engaged a third-party data privacy consultant to examine the impact of the Act and its Implementing Rules and Regulations on our current operations and develop the necessary measures to address any gaps. The Data Privacy and Governance Management coverage is as follows:



Some of our activities were:

Deliverable	Key actions
Training	• Conducted training sessions • Included awareness training as part of the orientation or onboarding activities of new employees
NPC registration	• Published seal of registration on the website and in the offices • Registered DPS and other data processing systems that handle personal data with the National Privacy Commission
Data privacy manual	• Consulted the company's legal department to ensure that the manual complies with all applicable laws and regulations • Drafted and updated the manual to reflect changes in regulations and company operations
Privacy impact assessment (PIA)	• Continuously monitored action plans based on committed implementation date • Performed PIA for other critical departments and new systems and programs that handle personal data

For the year, there were no reported data leaks, thefts, or losses, and there were no customer complaints received through the DPO or security incidents or data breaches to report to the National Privacy Commission.

GOVERNANCE

OUR MANAGEMENT APPROACH

Integrating ESG risks and opportunities into our corporate strategy starts with strong, effective, and committed leadership. Our governance structure includes a diverse and highly engaged Board of Directors and Management Team along with our Manual on Corporate Governance, Employee Handbook and Code of Ethics and Conduct, and Board committee charters, which are available on our website upson.com.ph.

Our Manual on Corporate Governance sets the standard for responsible business practice. Among others, it contains our policies on: Work Safety, Health Issues, Board Diversity, Succession Plan, Whistleblowing, Use of Inside Information, Non-violation of Human Rights and Intellectual Property or Copyright, Insider Trading, Transparency and Disclosure, Conflict of Interest, Related Party Transaction, Anti-bribery and Anti-corruption, and Non-discrimination.

Our Employee Handbook and Code of Ethics and Conduct provides guidance and information on company policies, procedures, and employment practices. It applies to all employees including executive officers. We require our employees and officers to submit an acknowledgment confirming that they have read the Code and understand their obligations outlined in it.

Every year, we publish our Integrated Annual Corporate Governance Report (I-ACGR) in accordance with the Securities and Exchange Commission Memorandum Circular No. 15, Series of 2017. The report gives details of our governance practices based on the recommendations under the Code of Corporate Governance for Publicly-Listed Companies. It covers the following topics:

- The Board's Governance Responsibilities;
- Disclosure and Transparency;
- Internal Control System and Risk Management Framework;
- Cultivating a Synergic Relationship with Shareholders; and
- Duties to Stakeholders.

The report can be accessed on our website at upson.com.ph/governance/annual-corporate-governance-report-acgr/ and at edge.pse.com.ph.

Board activities

The Board holds regular meetings at least six times a year and may convene additional meetings when necessary. In addition, committee meetings are called by the Chair for matters that require consideration and are scheduled by the respective committees.

Throughout the year, the Board monitored and reviewed the company's progress and performance against our strategic plan. They received reports on our capital raising activities during the IPO process, and updates on the business and current and emerging issues relevant to the company.

At the Board meeting in August, the Board approved our Material Related Party Transactions Policy to ensure all related party transactions are conducted in accordance with corporate governance standards and regulatory requirements. The policy is available on our website at upson.com.ph/governance/policies/.

		ATTENDANCE AND MEMBERSHIP TO BOARD COMMITTEES				
Director	**Board**	**Audit**	**Corporate Governance**	**Risk Management**	**Nomination**	**Remuneration**
Lawrence O. Lee Non-Executive Director	Chair 6/6	-	-	-	Chair -	Chair -
Ricardo A. Lee Non-Executive Director	3/6	-	-	-	Member -	Member -
William Lim Non-Executive Director	3/6	-	-	-	Member -	Member -
Arlene Louisa T. Sy Executive director	6/6	-	-	-	Member -	Member -
Rolando O. Raval Jr. Executive director	5/6	-	-	-	-	-
Marcos A. Legaspi Executive director	6/6	Member 3/3	-	-	-	Member -
Anthony Thomas C. Roxas, Jr. Executive director	6/6	Member 3/3	-	-	-	-
Raul M. Leopando Non-executive director	6/6	Member 3/3	Member 1/1	-	-	-
Chun Bing G. Uy Independent director	5/6	Member 3/3	Chair 1/1	-	Member -	-
Jose Vicente C. Bengzon III Independent director	5/6	Chair 3/3	Member 1/1	-	-	-

Investor engagement

Engaging with shareholders, investors, and analysts fosters an open dialogue with us so they are well informed and have access to adequate, fair, timely and accurate information about the business. Our two-way communication involves:

- regulatory reporting and continuous disclosures;
- investor outreach through meetings, conferences, site tours; and
- research and feedback.

Some examples of how we engaged in 2023 are:

- roadshows, conferences, earnings results and management meetings—both face-to-face and virtual;
- emails, calls, and video conferences;
- site visits to stores and main warehouse; and
- press releases and website.

In October, we joined an investor conference hosted by Jefferies and Regis Partners. Our CEO Arlene Sy and CFO Marcos Legaspi, together with Executive Director Anthony Thomas Roxas, Jr. and consultant Rachelle Paunlagui of Onward Investor Relations met with a total of 10 investors and analysts and discussed our strategy and key themes, including market conditions and outlook. The materials used for the meetings were made available on our website before the event at upson.com.ph/investor-relations/investor-resources/.

Investor relations activity in 2024 will continue to focus on communicating the company's investment case such that it is understood by the market and that investors' insights and feedback are relayed back to management and the Board.

LAWRENCE O. LEE
Non-Executive Director, Chairman

- Former President from 2012 to 2021
- Chairman of the Board of Upson Realty and Development Corporation, Director of Silvertec Global Philippines Inc., and Transway Hotels Group Corp., and President of Lamp Light International Corporation
- BS in Biology from the University of Santo Tomas

RICARDO A. LEE
Non-Executive Director

- Co-Founder and former Chairman of the Board from 1995 to 2021
- Director of Upson Realty and Development Corporation, Silvertec Global Philippines Inc., Transway Hotels Group Corp., and Lamp Light International Corporation

Board of Directors

WILLIAM LIM
Non-Executive Director

- Co-Founder and former Treasurer from 1995 to 2007
- Director of Upson Realty and Development Corporation
- BS in Civil Engineering from the University of Mindanao

ARLENE LOUISA T. SY
Executive Director, President, and Chief Executive Officer

- Responsible for recommending, implementing and continually developing our company's strategic direction, overseeing operational activities, communicating with the Board and stakeholders, and fostering a collaborative company culture
- Has served various senior roles across product and category management, marketing and procurement planning, store management operations, and project management since joining in 1995
- BS in Computer Science major in Computer Hardware from De La Salle University

ROLANDO O. RAVAL, JR.
Executive Director,
Chief Operations Officer

- Oversees the day-to-day management of our business, selection of new store locations, and the development work processes and tools for customer experience and risk management
- Has held previous roles within Upson including Management Information Systems (MIS) Manager and Service Manager since joining in 2002
- BS in Civil Engineering from Ateneo De Davao University, postgraduate diploma in Research and Development Management from the University of the Philippines

MARCOS A. LEGASPI
Executive Director,
Chief Finance Officer

- President and Managing Principal of M.A. Legaspi & Associates whose clients include Manila Jockey Club Inc., Alfonso R. Reyno Group of Companies, Pedro E. Roxas Group of Companies, Meneses (Cherifer) Group of Companies, Jaime C. Fernandez Group of Companies, Columbia Technologies Group of Companies, Aurora (OA) Phils., Inc., Saturn Information Technologies Inc., VGF Realty and Development Corporation
- Certified Public Accountant
- BS in Accounting from Polytechnic University of the Philippines

ANTHONY THOMAS C. ROXAS, JR.
Executive Director

- Financial advisor to key members of the Board since 2016
- Finance Director of Quantity Solutions Inc., Orion Group International Inc., and Link Energie Industries Co. Inc.
- Former Finance Director of HMR Philippines, Senior Management Advisor to Tapa King Inc., Assistant Vice President and Division Head of Domestic Business Development of First Metro Investment Corporation of the Metrobank Group, where he gained 23 years of banking experience
- BA in Economics from the University of Santo Tomas, Master in Business Management from Asian Institute of Management, and Master in Business Economics from the University of Asia and the Pacific

RAUL M. LEOPANDO
Non-Executive Director

- Former Chairman of the Board of RCBC Securities Inc., Vice Chairman of RCBC Bankard Services Inc., Consultant to the Chairman of Rizal Commercial Banking Corporation and Yuchengco Group of Companies, Director of RCBC Capital, Maibarara Geothermal Energy Inc., Petrogreen Energy Corporation, and Seafront Resources Corporation
- Former Vice Chairman of the Capital Market Development Committee of Financial Executives Institute of the Philippines and of the Capital Market Development Council, President of the Investment House Association of the Philippines, Director of Polar Mining Corp, Fil-Hispano Holdings Corporation, Roxas Holdings Inc., Charter Land, Paxys Inc., PetroEnergy Resources Corporation, and Marcventures Holdings Inc.
- MBA from Ateneo de Manila University, BS in Accounting from San Beda University, and BA in Economics from the University of the Philippines

CHUN BING G. UY
Independent Director

- Chairman of the Board of Nippon Express Philippines Corporation, Chairman and President of FBIA Insurance Agency, Director of Luisita Industrial Park Corporation, Executive Director of Strategic Equities Corporation, Consultant and Senior Advisor of Corporate Banking Group of Rizal Commercial Banking Corporation where he was previously Senior Executive Vice President and Group Head
- Former Director of RCBC Savings Bank Corporation, and Independent Director of Discovery World Corporation, and Liwayway (Global) Company, Ltd.
- BS in Management Engineering, Cum Laude, from Ateneo de Manila University

JOSE VICENTE C. BENGZON III
Independent Director

- Chairman of the Board of Vitarich Corporation, President and CEO of Torres Trading Company Inc., Vice Chairman of Commtrend Construction Corp., Director and Treasurer of Inception Technology Philippines Corp., and Senior Adviser to the Board of Malayan Bank
- Former Director of Rizal MicroBank, Philippine Quality Awards Foundation, Manila North Tollways Corp., South Luzon Tollways Corp., Century Peak Mining Corp., and Independent Director of Bermaz Auto Philippines Inc., President of UPCC Holdings Corp., Acting Chairman and Board member of Philippine National Construction Corp.
- Certified Public Accountant
- MBA from Northwestern University Kellogg School of Management, and bachelor's degree in commerce and economics from De La Salle University

Financial Statements

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

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

Marcos A. Legaspi
Chief Financial Officer

Signed this 28th day of February 2024

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BOOK NO. 81
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

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

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

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

Report on the Financial Statements

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.

REYES TACANDONG & CO.
FIRM PRINCIPLES. WISE SOLUTIONS.

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.

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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.

Report on the Supplementary Information Required under Revenue Regulations No. 15-2010 of the Bureau of Internal Revenue (BIR)

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on taxes and licenses in Note 24 to financial statements is presented for purposes of filing with the BIR and is not a required part of the basic financial statements. Such information is the responsibility of the management of Upson International Corp. The information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

	Note	December 31 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

		Years Ended December 31		
	Note	**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.

Trust Receipts

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).

Covenants

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

Capital Stock

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 2023	2022	2021	Outstanding Balance 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**

Financial Risk Management Objectives and Policies

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.

24. **Supplementary Information Required by the Bureau of Internal Revenue under Revenue Regulations No. 15-2010**

The information for 2023 required by the above regulation is presented below.

Output VAT

Output VAT declared by the Company for the year ended December 31, 2023 and the revenues subject to VAT are as follows:

	Revenues	Output VAT
Sale of goods and services:		
Subject to 12% VAT	₱10,141,956,869	₱1,217,034,824
Sales to Government	81,606,074	9,792,729
Zero rated sales/receipts	8,291,200	–
Total	10,231,854,143	1,226,827,553
Applied input VAT		1,220,190,079
Payments		6,637,474
VAT payable		₱–

The difference between the gross sales reported in the statement of comprehensive income and the gross sales declared in the VAT returns pertain to other income subject to VAT presented as part of "Other Income" in the statement of comprehensive income.

Input VAT

The movements in the input VAT claimed for by the Company for the year ended December 31, 2023 is shown below:

Input VAT carried over from previous period	₱768,061
Add current year payments for:	
Domestic purchases of goods other than capital goods	1,098,472,386
Domestic purchase of services	102,309,602
Importation of goods other than capital goods	20,814,674
Purchase of capital goods exceeding ₱1 million	381,600
Purchase of capital goods not exceeding ₱1 million	333,900
	1,223,080,223
Less applied against output VAT	1,220,190,079
	₱2,890,144

Importations

Taxes on the Company's importations for the year ended December 31, 2023 consist of:

Landed cost of imports	₱173,039,486
Customs duties and tariff fees	416,130
	₱173,455,616

Documentary Stamp Tax (DST)

The Company's DST paid during the year amounted to ₱17.7 million which is presented under "Taxes and licenses" account in the statement of comprehensive income for the year ended December 31, 2023.

All Other Local Taxes

The Company's other local and national taxes for the year ended December 31, 2023 consist of:

	Amount
Permits and licenses	₱42,776,570
Others	615,654
	₱43,392,224

The above local and national taxes are presented under "Taxes and licenses" account in the statements of comprehensive income for the year ended December 31, 2023.

Withholding Taxes

Summary of withholding taxes paid and accrued during the year:

	Paid	Accrued
Expanded withholding taxes	₱38,190,295	₱11,454,561
Final withholding taxes	25,394,999	–
Tax on compensation and benefits	15,605,093	–
	₱79,190,387	₱11,454,561

Tax Cases and Assessments

The Company has no outstanding tax assessments and tax cases as at and for the year ended December 31, 2023.

Corporate Information

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