

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

INFORMATION STATEMENT PURSUANT TO SECTION 17.1(b) OF THE SECURITIES REGULATION CODE

1. Check the appropriate box:

- Preliminary Information Statement
 Definitive Information Statement

2. Name of Registrant as specified in its charter

Cosco Capital, Inc.

3. Province, country or other jurisdiction of incorporation or organization

Manila, Philippines

4. SEC Identification Number

147669

5. BIR Tax Identification Code

000-432-378

6. Address of principal office

No. 900 Romualdez St., Paco, Manila

Postal Code

1007

7. Registrant's telephone number, including area code

(632) 8522-8801 to 04

8. Date, time and place of the meeting of security holders

August 18, 2020, 10:00am, via live stream

9. Approximate date on which the Information Statement is first to be sent or given to security holders

Jul 18, 2020

10. In case of Proxy Solicitations:

Name of Person Filing the Statement/Solicitor

We are not asking for Proxy Solicitations

Address and Telephone No.

N/A

11. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common	7,198,253,664

13. Are any or all of registrant's securities listed on a Stock Exchange?

- Yes No

If yes, state the name of such stock exchange and the classes of securities listed therein:

Philippine Stock Exchange, common share

The Exchange does not warrant and holds no responsibility for the veracity of the facts and representations contained in all corporate disclosures, including financial reports. All data contained herein are prepared and submitted by the disclosing party to the Exchange, and are disseminated solely for purposes of information. Any questions on the data contained herein should be addressed directly to the Corporate Information Officer of the disclosing party.



Cosco Capital, Inc. COSCO

**PSE Disclosure Form 17-5 - Information Statement for Annual or
Special Stockholders' Meeting**
*References: SRC Rule 20 and
Section 17.10 of the Revised Disclosure Rules*

Date of Stockholders' Meeting	Aug 18, 2020
Type (Annual or Special)	Annual
Time	10:00am
Venue	via live stream
Record Date	Aug 8, 2020

Inclusive Dates of Closing of Stock Transfer Books

Start Date	Aug 8, 2020
End date	Aug 18, 2020

Other Relevant Information

Please see attached Preliminary Information Statement of Cosco Capital, Inc.

Filed on behalf by:

Name	Candy Dacanay-Datuon
Designation	Assistant Corporate Secretary / Compliance Officer

COVER SHEET

0 0 0 0 0 1 4 7 6 6 9

SEC Registration Number

C O S C O C A P I T A L , I N C .

(Company's Full Name)

N O . 9 0 0 R O M U A L D E Z S T . , P A C O ,
M A N I L A

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

CANDY H. DACANAY-DATUON

(Contact Person)

(02) 8523-3055

(Company Telephone Number)

1 2

Month

3 1

Day

SEC FORM 20-IS

(Form Type)

Month

Day

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowing

Domestic

Foreign

SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

Remarks: Please sure BLACK ink for scanning purposes.

July 15, 2020

Securities and Exchange Commission

G/F Secretariat Bldg., PICC Complex
Roxas Blvd., Pasay City 1307

Attention: **Mr. Vicente Graciano P. Felizmenio, Jr.**
Director, Markets and Securities Regulation Department

Ms. Rachel Esther J. Gumtang-Remalante
Head, Corporate Governance and Finance Department

Philippine Stock Exchange


9th Floor, PSE Tower
28th Street corner 5th Avenue,
Bonifacio Global City, Taguig City

Attention: **Ms. Janet A. Encarnacion**
Head, Disclosure Department

Gentlemen:

For submission is the Preliminary Information Statement (SEC 20-IS) of **Cosco Capital, Inc.** for its 2020 Annual Stockholders' Meeting to be held on August 18, 2020.

Thank you,



Candy H. Dacanay – Datuon
Assistant Corporate Secretary
and Compliance Officer

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

INFORMATION STATEMENT PURSUANT TO SECTION 20
OF THE SECURITIES REGULATION CODE

1. Check the appropriate box:
 Preliminary Information Statement
 Definitive Information Statement
2. Name of Registrant as specified in its charter: **COSCO CAPITAL, INC.**
3. **No. 900 Romualdez St., Paco, Manila**
Province, country or other jurisdiction of incorporation or organization
4. SEC Identification Number: **147669**
5. BIR Tax Identification Code: **000-432-378**
6. **No. 900 Romualdez St., Paco, Manila** **1007**
Address of principal office Postal Code
7. Registrant's telephone number, including area code: **02-8523-3055**
8. **Via live – stream on the company website**
Date, time and place of the meeting of security holders
9. Approximate date on which the Information Statement is first to be sent or given to security holders: **July 18, 2020**
10. In case of Proxy Solicitations: **We are not asking for Proxy Solicitations.**
11. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):

Title of Each Class	Number of Shares of Common Stock Outstanding or Amount of Debt Outstanding
Common Share	7,198,253,664
12. Are any or all of registrant's securities listed in a Stock Exchange?
Yes No

If yes, disclose the name of such Stock Exchange and the class of securities listed therein: **Philippine Stock Exchange, common share**

NOTICE OF ANNUAL STOCKHOLDERS' MEETING

To All Our Stockholders:

Please be informed that the Annual Stockholders' Meeting of **COSCO CAPITAL, INC.** will be on August 18, 2020, 10:00 am, via live stream at www.coscocapital.com

AGENDA

1. Call to Order
2. Certification of Notice and Quorum
3. Approval of Minutes of the Previous Meeting and Ratification of Acts and Resolutions of the Board of Directors and Management since the last stockholders' meeting
4. Annual Report and Approval of the 2019 Audited Financial Statements
5. Election of Directors including independent directors
6. Re-appointment of External Auditor and fixing its remuneration
7. Other Matters
8. Adjournment

Only stockholders on record as of August 8, 2020 are entitled to notice and vote in the meeting.

Considering the COVID 19 pandemic, the stockholders may only participate in the meeting by remote communication, *in absentia* or by appointing the Chairman of the meeting as their proxy. The requirements and procedures in participating *in absentia* or by remote communication will be available in the Information Statement. The Information Statement will be accessible on the company website www.coscocapital.com starting July 18, 2020.

The stockholders who are attending by proxies should e-mail their duly accomplished proxies to corporate.governance@coscocapital.com on or before August 14, 2020. The company's stock transfer agent will validate the votes on August 17, 2020, 1:00 pm, at the office of the Assistant Corporate Secretary, Tabacalera Building, No. 900 Romualdez St., Paco, Manila, 1007.

Manila, July 15, 2020.


Candy H. Dacanay – Datuon
Assistant Corporate Secretary

EXPLANATION OF AGENDA ITEMS

1. Call to Order

The Chairman of the meeting, Mr. Lucio L. Co, will welcome the stockholders and formally open the meeting at 10:00 am.

2. Certification of Notice and Quorum

The Corporate Secretary, Atty. Jose S. Santos, Jr., will certify that notices to stockholders were duly sent, and there is a quorum to transact business.

3. Approval of Minutes of the Previous Meeting and Ratification of Acts and Resolutions of the Board of Directors and Management since the last stockholders' meeting

The Minutes of the June 20, 2019 annual meeting are available on the company website.

A resolution presenting the said Minutes and the ratification of the acts and resolutions of the Board of Directors and Management since the last stockholders' meeting will be presented to the stockholders.

4. Annual Report and Approval of the 2019 Consolidated Audited Financial Statements

A video presentation will be shown to the stockholders as an Annual Report.

Mr. Teodoro A. Polinga, Group Finance Controller, will deliver the 2019 Consolidated Audited Financial Statements to the stockholders.

A resolution ratifying the Annual Report and the 2019 Consolidated Audited Financial Statements will be presented to the stockholders.

5. Election of Directors including independent directors

The Chairman of the meeting will announce the names of the nominees for the election of directors and will open the floor for stockholders' voting.

The profile of the nominees will be provided in the Information Statement.

6. Re-appointment of External Auditor and fixing its remuneration

A resolution for the re-appointment of R.G. Manabat & Company (KPMG) and its proposed remuneration as External Auditor of the company for the ensuing year will be presented to the stockholders.

7. Other Matters

The Chairman will open the floor for any question from the stockholders.

PART 1: INFORMATION REQUIRED IN INFORMATION STATEMENT

A. GENERAL INFORMATION

Item 1. Date, time and place of meeting of security holders.

- (a) August 18, 2020, 10:00 AM, via live stream on the company website
Principal Office: No. 900 Romualdez St., Paco, Manila 1007
- (b) The Information Statement will be available on the company's website
www.coscocapital.com beginning on July 18, 2020.

We are not asking for a proxy and you are requested not to send us a proxy.

Item 2. Dissenters' Right of Appraisal

Section 80 Title X of the Revised Corporation Code provides that any stockholder of a corporation shall have the right to dissent and demand payment of the fair value of the shares in the following instances:

- (a) In case an amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholder or class of shares, or of authorizing preferences in any respect superior to those outstanding shares of any class, or of extending or shortening term of corporate existence;
- (b) In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Revised Corporation Code;
- (c) In case of merger or consolidation; and
- (d) In case of investment of corporate funds for any purpose other than the primary purpose of the corporation.

There are no matters or actions to be taken up at the meeting that may give rise to a possible exercise by stockholders of their appraisal rights.

Item 3. Interest of Certain Persons in or Opposition to Matters to be Acted Upon

- (a) No director, officer, nominee or any associate of the foregoing person has substantial interest, direct or indirect, by security holdings or otherwise, in any matter to be acted upon, other than election or appointment to office.
- (b) No director, officer, nominee or any associate of the foregoing person has informed the company in writing that he intends to oppose any action to be taken by the company at the meeting and indicate the action which he intends to oppose.

B. CONTROL AND COMPENSATION INFORMATION

Item 4. Voting Securities and Principal Holders Thereof

(a) Number of outstanding shares as of June 30, 2020: 7,198,253,664 common shares

Number of votes entitled: one (1) vote per share

(b) All stockholders on record as of August 8, 2020 shall be entitled to vote in the meeting.

(c) Section 23 of the Revised Corporation Code states that stockholders entitled to vote shall have the right to vote the number of shares of stock standing in their own names in the stock books of the corporation as of record date. The said stockholder may: (a) vote such number of shares for as many as there are directors to be elected; (b) cumulate said shares and give one (1) candidate as many votes as the number of directors to be elected multiplied by number of shares owned; or (c) distribute them on the same principle among as many candidates as may be seen fit. Provided, that the total number of votes cast shall not exceed the number of shares owned by the stockholders as shown in the books of the corporation multiplied by the whole number directors to be elected.

On July 9, 2020 special board meeting of the company, the board allows the stockholders to attend and vote *in absentia*, details of which are provided in the notice of the meeting.

(d) Security Ownership of Certain Beneficial Owners and Management

1. Security ownership of more than 5% of the stock of the company as of June 30, 2020:

Title of Class	Name, address of record owner	Relationship with the Company	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	Number of shares held	Percent
Common	Lucio L. Co, No. 2 Pili Avenue, South Forbes Park, Makati City	Chairman	Direct	Filipino	2,380,741,492	33.07%
Common	Susan P. Co, No. 2, Pili Avenue, South Forbes Park, Makati City	Vice-Chairman	Direct	Filipino	1,780,182,230	24.73%
Common	PCD Nominee Corp. – Non Filipino	Various accounts	Indirect	Non-Filipino	1,073,317,392	14.49%

Common	PCD Nominee – Filipino	Various Accounts	Indirect	Filipino	602,862,600	8.36%
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2. Security Ownership of Directors and Executive Officers of the company as of June 30, 2020:

Title of Class	Name of Beneficial Owner	Nature of beneficial ownership	Citizenship	Number of shares	Percent of Outstanding Voting Shares
Common	Lucio L. Co	Direct	Filipino	2,380,741,492	33.07%
Common	Susan P. Co	Direct	Filipino	1,780,182,230	24.73%
Common	Leonardo B. Dayao	Direct	Filipino	750,982	0.01%
Common	Levi B. Labra	Direct	Filipino	100	0.00%
Common	Roberto Juanchito T. Dispo	Direct	Filipino	100	0.00%
Common	Robert Y. Cokeng	Direct	Filipino	8,155,000	0.11%
Common	Oscar S. Reyes	Direct	Filipino	54,265	0.00%
Common	Bienvenido E. Laguesma	Direct	Filipino	100	0.00%

3. Mr. and Mrs. Lucio and Susan Co do not have any voting trust agreement for their ownership of more than 5% of the stock of the company.

4. There has been no change in control of the company in the last fiscal period.

5. Foreign ownership level as of June 30, 2020: 1,073,317,392 common shares or 14.49% of the outstanding capital stock.

Item 5. Directors and Executive Officers

(A) Presented below are the business profile of the company's Directors, Executive Officers and Key Officers.

(1) Directors

The board of directors of the company is composed of nine members, seven males, one female, and one board consultant. No director of the company concurrently serves as a director in five or more listed companies. The following directors are the nominees for directorship in the ensuing 2020 to 2021. The business experience of the directors are as follows:

LUCIO L. CO, Filipino, 65 years old, Chairman of the Board of Directors since 2012.

Mr. Co is also the Chairman and President of the following companies: Bellagio Holdings, Inc., Canaria Holdings Corporation, Ellimac Prime Holdings, Inc., Invescap Incorporated, Puregold Duty Free, Inc., and Puregold Properties, Inc.

He is the Chairman of the Alcorn Petroleum and Minerals Corporation, Entenso Equities, Inc., NE Shopping Centers Corporation, P.G. Holdings, Inc., Pajusco

Holdings Corporation, Puregold Duty Free (Subic), Inc., Puregold Finance, Inc., Puregold Realty Leasing & Management, Inc., San Jose City I Power Corp., Union Energy Corporation, and Union Equities, Inc.

He is one of the Directors of these companies: Catuiran Hydropower Corporation, Cleangreen Energy Corporation, Forbes Corporation, Grass Gold Renewable Energy (G2REC) Corporation, Karayan Hydropower Corporation, Kareila Management Corporation, LCCK & Sons Realty Corporation, Luis Co Chi Kiat Foundation, Inc., Meritus Prime Distributions, Inc., Montosco, Inc., League One Finance and Leasing Corporation, Pamana Water Corporation, Tower 6789 Corporation and VS Grial Power Corporation.

Mr. Co is holding the following positions in other Philippine listed companies: Director of Philippine Bank of Communications, Chairman of Puregold Price Club, Inc. and Chairman & President of Da Vinci Capital Holdings, Inc.

He is a member of the Board of Trustees of Adamson University and Luis Co Chi Kiat Foundation, Inc.

Mr. Co has been an entrepreneur for the past 40 years.

SUSAN P. CO, Filipino, 62 years old, Vice-Chairman of the Board since 2013.

Mrs. Co concurrently holds the following positions in other companies: Chairman and President of Cosco Price, Inc., Chairman of Tower 6789 Corporation and Director of Bellagio Holdings, Inc., Blue Ocean Holdings, Inc., Canaria Holdings Corporation, Ellimac Prime Holdings, Inc., Kareila Management Corporation, KMC Realty Corp., Meritus Prime Distributions, Inc., Montosco, Inc., NE Shopping Centers Corporation, P.G. Holdings, Inc., Patagonia Holdings Corp., PPCI Subic, Inc., Premier Wine and Spirits, Inc., Puregold Duty Free (Subic), Inc., Puregold Duty Free, Inc., Puregold Properties, Inc., Puregold Finance, Inc., Puregold Realty Leasing & Management, Inc., San Jose City I Power Corp., S&R Pizza (Harbor Point), Inc., S&R Pizza, Inc., Union Energy Corporation and Union Equities, Inc.

Mrs. Co is holding the following positions in other Philippine listed companies: Vice-Chairman of Puregold Price Club, Inc. and Director of Philippine Bank of Communications.

Mrs. Co received a Bachelor of Science degree in Commerce from the University of Santo Tomas.

LEONARDO B. DAYAO, Filipino, 76 years old, President of the company since 2010.

Mr. Dayao was the President of Puregold from 2005 to 2014. He was first elected on the board in 1998. He is also the Chairman and President of Fertuna Holdings Corp.; Chairman of Catuiran Hydropower Corporation, Grass Gold Renewable Energy (G2REC) Corporation, Kareila Management Corporation, League One Finance and

Leasing Corporation, Pamana Water Corporation, PSMT Philippines, Inc., S&R Pizza, (Harbor Point) Inc., S&R Pizza, Inc.; Vice-Chairman of Ayagold Retailers, Inc.; President of NE Pacific Shopping Centers Corporation, Puregold Duty Free (Subic), Inc., Puregold Finance, Inc., San Jose City I Power Corp., Union Energy Corporation; Vice-President of Alerce Holdings Corp., Bellagio Holdings, Inc., KMC Realty Corporation, Puregold Duty Free, Inc., Puregold Properties, Inc. and Union Equities, Inc.; and Director of Canaria Holdings Corporation, Entenso Equities Incorporated, Karayan Hydropower Corporation and Puregold Realty Leasing & Management, Inc.

Mr. Dayao is holding the following positions in other Philippine listed companies: Executive Director of Puregold Price Club, Inc. and Vice-Chairman of Philippine Bank of Communications.

He received a Bachelor of Science Degree in Commerce from the Far Eastern University. He is a Certified Public Accountant. He completed the Basic Management Program at the Asian Institute of Management and earned units in MBA from the University of the Philippines-Cebu.

LEVI LABRA, Filipino, 62 years old, Director since 2017.

Mr. Labra also serves as Director of Hope Philippines, Inc. He is holding the following positions in other Philippine listed companies: Board Consultant of Puregold Price Club, Inc. and Director of Philippine Bank of Communications.

Before joining the company, Mr. Labra worked in Procter & Gamble for 35 years. He was the Sales Head and a member of the management committee for 20 years. He was Regional Sales Manager for three years building sales organization and systems for India, Indonesia, Malaysia, Singapore, South Korea, and Thailand.

He graduated with honor, *cum laude*, from the University of San Carlos in 1978 of a degree of Bachelor of Science, major in Business Administration.

ROBERTO JUANCHITO T. DISPO, Filipino, 56 years old, Director since 2017.

Mr. Dispo is currently the President/CEO of League One Finance and Leasing Corporation, Chairman of Mercantile Insurance Corporation, Blacksburg Corporation, Pontificio Collegio Filipino in Rome, and Vice Chairman of New San Jose Builders.

Mr. Dispo was the former Vice Chairman and President of Cirtek Philippines from 2016 to 2019 and CEO of Quintel USA/UK from 2017 to 2019. He became President of First Metro Investment Corporation from 2011 to 2015, Senior Vice President and Executive Vice President of First Metro Investment Corporation from 1998 to 2010. He was a former Deputy Treasurer of the Philippines, National Treasury, Department of Finance from 1990 to 1997. Mr. Dispo started his career as Financial Analyst in the Department of Trade and Industry from 1988 to 1990 and Administrative Officer in the Department of National Defense from 1987 to 1988.

Mr. Dispo graduated with a degree of Bachelor of Science in Economics from the San Sebastián College, Manila in 1984. He took Bachelor of Science major in management from the Pamantasan ng Lungsod ng Maynila in 1990 and Masters in Business Administration from the same school in 1991. He completed a Diploma Program from the International Banking and Finance, Economic Institute, University of Colorado in 1994 and Masters in Business Economics from the University of Asia and the Pacific in 2014.

He is a member of the Money Market Association of the Philippines since 1998 and FINEX since 2012.

Mr. Dispo was the CEO of the Year awardee in 2014 given by Asia CEO Awards and became Finalist in CNBC Asia Best CEO in 2014.

ROBERT Y. COKENG, Filipino, 69 years old, Lead Independent Director since 2013 and Lead Independent Director since 2017.

Mr. Cokeng is the Chairman of the Audit Committee of the company.

Mr. Cokeng is currently the Chairman and President, F&J Prince Holdings Corporation (PSE-Listed), Magellan Capital Holdings Corporation, Center Industrial and Investment, Inc., and Consolidated Tobacco Industries of the Philippines. He is also the Chairman of Pointwest Technologies Corp., Ipads Developers Corp., Chairman of the Executive Committee of BPO International.

Mr. Cokeng started as Senior Investment Officer and Philippine Country Officer in International Finance Corp. (World Bank group), Washington, D.C. from 1976 to 1986 and Planning Associate in Mobil Oil Philippines from 1971 to 1972.

Mr. Cokeng is a member of Wack - Wack Golf & Country Club, Tagaytay Midlands Golf & Country Club, Balesin Island Club, Management Association of the Philippines, and an Advisory Board Member of Harvard Business School Club of the Philippines.

Mr. Cokeng graduated with honors from the Ateneo University with a degree of Bachelor of Arts in Economics Honors Program in 1971, *magna cum laude*. He took a Masters in Business Administration program from Harvard University in 1976 and completed it with high distinction.

OSCAR S. REYES, Filipino, 74 years old, Independent Director since 2013.

Mr. Reyes is currently the Chairman of Link Edge, Inc. from 2002 up to the present. He was the former President & CEO of Manila Electric Company from 2012 to 2019, Senior Executive Vice-President & Chief Operating Officer of Manila Electric Company from 2010 to 2012. He was the Country Chairman of Shell Companies in the Philippines from 1997 to 2001 and held various executive positions in Pilipinas Shell Petroleum Corporation from 1971 to 2001.

Mr. Reyes completed Commercial Management Study Program, Shell International, United Kingdom in 1986, Program for Management Development at Harvard Business School in 1976, and with academic units completed in MBA at the Ateneo Graduate School of Business in 1971.

He is a member of the Management Association of the Philippines, FINEX, Asia Society of the Philippines, and the Employers Confederation of the Philippines.

Mr. Reyes is a graduate of the Ateneo de Manila University with a degree of Bachelor of Arts major in Economics in 1965 with a distinction of *cum laude*.

BIENVENIDO E. LAGUESMA, Filipino, 69 years old, Independent Director since 2017.

Mr. Laguesma is a Senior Partner at Laguesma Magsalin Consulta Law Offices, Independent Director of Philippine Bank of Communications (PSE-Listed), and Director of Rural Bank of Angeles, Cavite United Rural Bank, Asia United Leasing & Finance Corp., and Asia United Fleet Management Services, Inc.

He served as Secretary of the Department of Labor and Employment from 1998 to 2001, Commissioner of Social Security System from 2011 to 2016. He also became Presidential Assistant of the Office of the President of the Republic of the Philippines from 1996 to 1998, Undersecretary of the Department of Labor and Employment from 1990 to 1996, Administrator in the National Conciliation and Mediation Board from 1987 to 1990, Regional Director of the Department of Labor and Employment from 1982 to 1986, Assistant Regional Director from 1981-1982, and Executive Labor Arbiter, National Labor Relations Commission from 1979 to 1981. Mr. Laguesma started his public service as Labor Arbiter of the National Labor Relations Commission in 1979 and Provincial Director of Bataan Provincial Labor Office 1978 to 1979, and Mediator-Arbiter of the Bureau of Labor Relations from 1976 to 1978.

Atty. Laguesma completed his Career Executive Development Course from the Development Academy of the Philippines from 1984 to 1985 and Public Administration Course from the Royal Institute of Public Administration in London, United Kingdom in 1985. Lyceum of the Philippines awarded Atty. Laguesma, with an Outstanding Alumnus award in 1971, Doctor of Humanities, Honoris Causa, by the Adamson University in 1999, and Doctor of Humanities, Honoris Causa, by the Central Colleges of the Philippines in 2016.

He is a member of the Integrated Bar of the Philippines since 1976, the Philippine Bar Association since 2004, and the Rotary Club of Manila since 2002.

Atty. Laguesma graduated from the Lyceum of the Philippines with a degree of Bachelor of Arts major in Political Science in 1971 and Ateneo de Manila University College of Laws with a degree of Bachelor of Laws in 1975.

JAIME J. BAUTISTA, Filipino, 63 years old, Board Consultant since 2019.

Mr. Bautista is currently a member of the Board of Trustees of the University of the East, UE Ramon Magsaysay Memorial Medical Center, International School of Sustainable Tourism, Philippine Eagle Foundation Inc. and member of the Board of Directors of Airspeed International Corp., Alphaland Corp., Gothong Southern Shipping Lines, Inc., Sabre Travel Network Phils. Inc.

He used to be the President of the Philippine Airlines, Inc. (PAL) from 2014 to 2019 and from 2004 to 2012. He was the Executive Vice-President of PAL from 1999 to 2004 and Senior Vice President – Chief Finance Officer from 1994 to 1998.

Mr. Bautista is a graduate of Colegio de San Juan de Letran, Intramuros, Manila, with a degree of Bachelor of Science in Commerce, Major in Accounting, 1977.

He completed a post-graduate course of Doctor of Philosophy in Humanities (Honoris Causa) from the Central Luzon State University, Muñoz, Nueva Ecija in 2018, and a Canada International Entrepreneurial Program from Capilano College, North Vancouver, British Columbia in 1990.

(2) Executive Officers

Every after the annual stockholders' meeting, the board convenes for an organizational meeting and appoint officers who will assume the positions of President, Treasurer, Corporate Secretary, Compliance Officer, Lead Independent Director, Internal Auditor, and the members of the committee. For the year 2019, the organizational meeting took place on June 20, 2019. The board renewed the appointment of the following officers:

TEODORO A. POLINGA, Filipino, 61 years old, Group Finance Comptroller since 2013.

Mr. Polinga was the Senior Accounting Manager of the company in 2013 and became Comptroller in 2015.

He was the founding President and Director of MTM Ship Management (Philippines), Inc., 2013 to 2014, and Executive Director and Chief Finance Officer of Alchem Energy Limited from 2010 to 2012.

Mr. Polinga is a Sustaining Life Member of the Philippine Institute of Certified Public Accountants (PICPA), Member/Past Director of the Rotary Club of Makati – Legazpi and Director & Vice President of B.F. International Homeowners Association.

Mr. Polinga graduated with honors, *magna cum laude*, from the Holy Name University (Formerly Divine Word College of Tagbilaran City) with a degree of Bachelor of Science major in Accounting in 1978 and completed a Management Development Program from the Asian Institute of Management in 1990.

JOSE S. SANTOS, JR., Filipino, 80 years old, Corporate Secretary since 2013.

Atty. Santos is a practicing lawyer. He is a graduate of Lyceum of the Philippines with a degree of Bachelor of Laws in 1961. He became a member of the Philippine bar in 1961.

CANDY H. DACANAY-DATUON, Filipino, 41 years old, Assistant Corporate Secretary and Compliance Officer since 2013.

Atty. Dacanay is a graduate of Colegio De San Juan de Letran with a degree of Bachelor of Arts in Political Science, with a distinction of *cum laude*. She finished Bachelor of Laws from the University of Santo Tomas in 2003 and admitted to the Philippine Bar in 2004.

She started her career as Associate Counsel of Puregold Price Club, Inc. from 2004 to 2011. She became the company's Assistant Corporate Secretary and at the same time Compliance Officer in 2012, and Data Privacy Officer in 2018.

Concurrently, she is the Assistant Corporate Secretary and Compliance Officer of Puregold Price Club, Inc. (a listed company) and Corporate Secretary of Da Vinci Capital Holdings, Inc. (a listed company), Kareila Management Corporation (S&R warehouse) and Corporate Secretary and Compliance Officer of League One Finance and Leasing Corporation.

Atty. Dacanay has recently completed the Harvard Business School Online Certificate Program, "Sustainable Business Strategy".

EMERLINDA D. LLAMADO, Filipino, 58 years old, Internal Auditor since 2012.

Before joining the company, she worked as System Assistant and Audit Manager from 1984 to 2012 with the Ever Gotesco group of companies. She graduated from the Far Eastern University with a degree of Bachelor of Science in Accountancy in 1984. Ms. Llamado is a Certified Public Accountant.

(3) Key Officers in Subsidiaries

FERDINAND VINCENT P. CO, Filipino, 38 years old, President of Puregold Price Club, Inc. since 2015.

He concurrently holds the following positions: (1) Chairman and President of Alerce Holdings Corp., Blue Ocean Foods, Inc., Forbes Corporation, Invesco Company, Inc., KMC Realty Corporation, League One, Inc., PPCI Subic Inc., Patagonia Holdings Corp., Purepadala, Inc., and VFC Land Resources, Inc.; (2) President of Ayagold Retailers, Inc., Entenso Equities, Inc., and Union Equities, Inc.; (3) Director of Bellagio Holdings, Inc., Blue Ocean Holdings, Inc., Canaria Holdings Corporation, Cosco Price, Inc., Ellimac Prime Holdings, Inc., Fertuna Holdings Corp., Meritus Prime Distributions, Inc., P.G. Holdings, Inc., Premier Wine and Spirits, Inc., PSMT Philippines, Inc., Puregold Duty Free (Subic), Inc., Puregold Finance, Inc., Puregold

Properties, Inc., Puregold Realty Leasing & Management, Inc., San Jose City Power Corp., Tower 6789 Corporation and Union Energy Corporation.

Mr. Vincent Co received a Bachelor of Science degree in Entrepreneurial Management from the University of Asia and the Pacific in 2003.

ANTHONY SY, Filipino, 59 years old, S&R President since 2006.

Before joining the company, Mr. Sy worked as President of Visual Merchandising Center from 1986 to 2006. He graduated from the Ateneo De Manila University with a degree of Bachelor of Science in Management Engineering in 1982.

JOSEPH U. SY, Filipino, 57 years old, Operations Manager of Ayagold since 2017.

Mr. Sy is one of the pioneer employees of Puregold. He was the first store manager in the first branch of the company in Mandaluyong City. Because of his long retail experience, Mr. Sy manages the big stores of Puregold in Metro Manila, and he is also heading the operation of 2 branches of Merkado, a joint venture project with Ayala Land, Inc.

He graduated from the Philippine School of Business Administration major in Accountancy in 1983. Mr. Sy is a Certified Public Accountant.

IRAIDA B. DE GUZMAN, Filipino, 60 years old, President of Office Warehouse since 2014.

Before joining Office Warehouse, Ms. De Guzman worked as Senior Vice-President of Puregold from 1999 to 2014. She is a graduate of Polytechnic University of the Philippines with a degree of Bachelor of Science in Commerce major in Economics.

GIRLIE M. SY, Filipino, 57 years old, President of Nation Realty, Inc. since 2013.

Ms. Sy started her career in Puregold Finance, Inc. as Finance and Administration Manager in 1995 up to the present and Finance and Admin Manager for Bellagio Holdings, Inc. in 2005 up to the present.

Ms. Sy is a graduate of Far Eastern University with a degree of Bachelor of Science in Psychology in 1983.

JOAN C. JUSTO, Filipino, 45 years old, Leasing Manager of NE Pacific Shopping Centers Corporation since 2014.

Ms. Justo has been with NE Pacific since 1997 under its previous and founding owners. She is a graduate of Lyceum of the Philippines with a degree of Bachelor of Science in Foreign Service in 1995.

CAMILLE CLARISSE P. CO, Filipino, 32 years old, Chairman and President of Meritus Prime Distributions, Inc. since 2013.

Ms. Camille Co is a Director of Alerce Holdings, Corp., Blue Ocean Holdings, Corp., CHMI Hotels and Residences, Inc., Fertuna Holdings, Corp., Invesco Company, Inc., KMC Realty Corporation, League One, Inc., Montosco, Inc., Nation Realty Inc., P.G. Holdings, Inc., Patagonia Holdings, Corp., Pure Petroleum Corp., Premier Wine and Spirits, Inc. Puregold Properties, Inc., S&R Pizza, Inc., SPC Resources, Inc., Union Equities, Inc., VFC Land Resources, Inc.

Ms. Co is a graduate of Dela Salle University with a degree of Bachelor of Arts in Psychology in 2009.

JANELLE O. UY, Filipino, 33 years old, Chairman and President of Montosco, Inc. since 2013.

Prior to joining the company, Ms. Uy worked as a Key Account Manager in Unilever Philippines from 2009 to 2013. She graduated from the Dela Salle University with a degree in Applied Corporate Management in 2009.

ROBIN DERRICK C. CHUA, Filipino, 30 years old, Managing Director of Premier Wine and Spirits, Inc. from 2018 up to the present.

Before joining the company, Mr. Chua worked in various consumer marketing and sales roles in Unilever Philippines and overseas from 2012 to 2018. He is a graduate of Ateneo de Manila University with a degree of Bachelor in Management and a Minor in Entrepreneurship in 2012.

JOSE PAULINO L. SANTAMARINA, Filipino, 56 years old, President of Premier Wines and Spirits, Inc. from 1996 up to the present. Mr. Santamarina is a graduate of the Ateneo De Davao University with a degree of Bachelor of Science in Accountancy.

(B) Significant Employees

There is no person in the company who is not an executive or key officer but who is expected to make a significant contribution to the operation of the business. The business of the company is not highly dependent on the services of certain key personnel.

(C) Family Relationships

1. Mr. Lucio L. Co and Mrs. Susan P. Co are husband and wife.
2. Mr. Ferdinand Vincent P. Co and Ms. Pamela Justine P. Co are children of Mr. and Mrs. Co.

(D) Involvement in Certain Legal Proceedings

As of December 31, 2019, and the past five years, the company has no director, executive officer or principal officer who is involved in any of the following:

- (1) Bankruptcy case.
- (2) Convicted by final judgment of any criminal proceeding, domestic or foreign.
- (3) The subject of any order, judgment, or decree of any court of competent jurisdiction permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities, or banking activities.
- (4) Being found by a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body or a domestic or foreign exchange or other organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended or vacated.
- (E) No director has resigned or declined to stand for re-election to the board of directors since the date of the last annual meeting of security holders because of a disagreement with the company on any matter relating to the company's operations, policies or practices.
- (F) For discussion of related party transactions, please refer to the 2019 Consolidated Audited Financial Statements hereto attached as Annex "D".

Item 6. Compensation of Directors and Executive Officers

The company pays a fixed monthly compensation to its employees subject to periodic performance review. The members of the board receive per diem allowances of P50,000.00 per attendance in board meetings and P20,000 per attendance in committee meetings.

The total annual compensation of the President and the four most highly compensated officers amounted to P6,406,199.02 in 2018 and P7,200,000.00 in 2019 and their projected total annual compensation for the year 2020 is P7,200,000.00, please see table below:

(A) Summary Compensation Table

Name and Position	Year	Salary	Bonus	Other Annual Compensation
Lucio L. Co, Chairman				
Susan P. Co, Vice-Chairman				
Leonardo B. Dayao, President				
Teodoro A. Polinga, Comptroller				
Andres S. Santos, Legal Counsel				
Aggregate compensation of the President and the four most highly compensated officers	2017	P6,412,772.70	-	-
	2018	P6,406,199.02	-	-

	2019	P7,200,000.00	-	-
	2020 projected	P7,200,000.00	-	-
Aggregate compensation paid to all other officers and managers	2017	P2,512,772.70	-	-
	2018	P2,506,199.02	-	-
	2019	P3,960,000.00	-	-
	2020 projected	P3,960,000.00	-	-

(B) Standard Arrangements

The company has no standard arrangements according to which the directors are compensated, directly or indirectly, for any services provided as a director except for per diem allowances.

(C) Other Arrangements

The company has no other arrangements according to which the directors are compensated, directly or indirectly, for any services provided as a director except for per diem allowances.

(D) Employment Contracts and Termination of Employment and Change-in-Control Arrangements

All employees, including executive and principal officers, have employment contracts with the company, which are consistent with the existing labor laws of the country. The company has a retirement plan for its employees that is also in concordance with current labor laws.

(E) Warrants and Options

None.

Item 7. Independent Public Accountants

(a) The company's external auditor for 2019 is:

Mr. Dindo Marco M. Dioso
Handling Audit Partner
CPA License No. 0095177
SEC Accreditation No. 1387-AR-1 (Group A) valid until May 31, 2020.
R.G. Manabat & Co.
The KPMG Center, 9/F 6787 Ayala Avenue, Makati City Philippines
+63 (2) 885 7000

(b) Upon the favorable recommendation of the Audit Committee, the board is recommending the same principal accountant for the year 2020.

(c) Mr. Dindo Marco M. Dioso or his representatives are expected to be present at the security holders' meeting; they will have the opportunity to make a statement, if they desire to do so; and they are expected to be available to respond to appropriate questions.

(d) The independent accountant who was previously engaged as the principal accountant to audit the company's financial statements has not resigned nor was there any indication that he declined to stand for re-election after the completion of the current audit and neither was he dismissed by the company.

(e) There were no changes in or disagreements with independent accountants on accounting and financial disclosure.

(f) The company paid the independent accountant the following fees:

2017	2018	2019
2,220,500	3,270,500	2,660,500

The company did not engage the services of R.G. Manabat (KPMG) for non-audit services.

Item 8. Compensation Plans

No action is to be taken up with respect to any plan pursuant to which cash or non-cash compensation may be paid or distributed during the meeting.

C. ISSUANCE AND EXCHANGE OF SECURITIES

Item 9. Authorization or Issuance of Securities Other than for Exchange

No action is to be taken up with respect to the authorization or issuance of any securities otherwise than for exchange for outstanding securities of the company during the meeting.

Item 10. Modification or Exchange of Securities

No action is to be taken up with respect to the modification of any class of securities of the registrant, or the issuance or authorization for issuance of one class of securities of the company in exchange for outstanding securities of another class.

Item 11. Financial and Other Information

Attached hereto are the Management Discussion and Analysis as Annex "C", 2019 Consolidated Audited Financial Statements as Annex "D", and First Quarter Financial Report as Annex "E".

Item 12. Mergers, Consolidations, Acquisitions and Similar Matter

No action is to be taken up during the meeting that will involve mergers, consolidations, acquisitions or any similar transaction of the company.

Item 13. Acquisition or Disposition of Property

No action is to be taken with respect to the acquisition or disposition of any property during the meeting.

Item 14. Restatement of Accounts

No action is to be taken up with respect to the restatement of any asset, capital, or surplus account of the company during the meeting.

D. OTHER MATTERS

Item 15. Action with Respect to Reports

- (a) Minutes of the 2019 Annual Stockholders' Meeting including the President's Report and the 2018 Consolidated Audited Financial Statements.
- (b) Annual Report including the 2019 Consolidated Audited Financial Statements.

Item 16. Matters Not Required to be Submitted

No action is to be taken up with respect to any matter which is not required to be submitted to a vote of security holders.

Item 17. Amendment of Charter, Bylaws or Other Documents

No action is to be taken up with respect to any amendment of charter or bylaws.

Item 18. Other Proposed Action

- (a) Ratification of all the acts and resolutions of the board of directors and management from the date of the previous stockholders' meeting.
- (b) Election of regular and independent directors.
- (c) Re-appointment of external auditor and fixing its audit service fees.

Item 19. Voting Procedures

- (a) The affirmative vote of at least majority of the shares present or represented in the meeting shall be required to approve all actions submitted to the vote of stockholders.
- (b) The stockholders may cast their votes by sending proxies, or *in absentia* by any means of remote communication. The stockholders entitled to vote shall have the right to vote the number of shares of stock standing in their own names in the stock books of the corporation as of record date.

For election of directors, a stockholder may: (a) vote such number of shares for as many as there are directors to be elected; (b) cumulate said shares and give one (1) candidate as many votes as the number of directors to be elected multiplied by number of shares owned; or (c) distribute them on the same principle among as many candidates as may be seen fit. Provided, that the total number of votes cast shall not exceed the number of shares owned by the stockholders as shown in the books of the corporation multiplied by the whole number directors to be elected.

All votes of the stockholders must be submitted by email to corporate.governance@coscocapital.com on or before August 14, 2020.

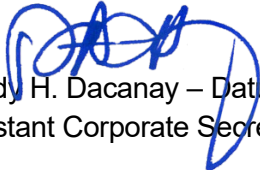
(c) The company will engage the services of its Stock Transfer Agent, RCBC Transfer Agent, to count and validate the votes of the stockholders.

SIGNATURE PAGE

After reasonable inquiry and to the best of my knowledge and belief, we hereby certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Manila, Philippines on July 15, 2020.

COSCO CAPITAL, INC.

By:



Candy H. Dacanay – Datuon
Assistant Corporate Secretary

PROXY

Date: _____

The undersigned hereby appoints the Chairman of the meeting as a proxy to vote all the shares of the undersigned at the 2020 Annual Stockholders' Meeting of **COSCO CAPITAL, INC.** set on August 18, 2020, 10:00 AM, via live stream at www.coscocapital.com.

The proxy shall vote subject to the instructions indicated below, and the proxy is authorized to vote in his discretion on other business as may properly come at the meeting. Where no specific authority is indicated below, the proxy shall vote for the approval of the corporate matters listed below and in favor of the nominated directors named below.

Agenda Items	Yes	No	Abstain
1. Approval of Minutes of the Previous Meeting and Ratification of Acts and Resolutions of the Board of Directors and Management since the last stockholders' meeting			
2. Annual Report and Approval of the 2019 Audited Financial Statements			
3. Re-appointment of RG Manabat & Company as External Auditor for the year 2020 and up to the total amount of P2.6 million as audit fee			
4. Election of Directors	Number of Votes		
a. Lucio L. Co			
b. Susan P. Co			
c. Leonardo B. Dayao			
d. Roberto Juanchito T. Dispo			
e. Levi B. Labra			
f. Jaime J. Bautista			
g. Robert Y. Cokeng as Independent Director			
h. Oscar S. Reyes as Independent Director			
i. Bienvenido E. Laguesma as Independent Director			

Complete Name of Stockholder and/or Representative

Please email a scanned copy of this Proxy at corporate.governance@coscocapital.com on or before August 14, 2020. For corporate stockholders, attach a Secretary's Certificate stating the authority of the signatory named herein to appoint the Proxy and sign this Proxy Form.

Guidelines for Participating via Remote Communication and Voting *in Absentia* in 2020 Annual Stockholders' Meeting of Cosco Capital, Inc.

The 2020 Annual Stockholders' Meeting (ASM) of Cosco Capital, Inc. (the Company) is on August 18, 2020 at 10:00 am and with a record date of August 8, 2020.

In consideration of the health and safety concerns of everyone brought by COVID 19 pandemic, the Board of Directors of the Company has approved and authorized our stockholders to participate in the ASM via remote communication and to exercise their right to vote *in absentia*.

Registration

The stockholder must notify the Assistant Corporate Secretary of his/her intention to participate in the ASM via remote communication and exercise his/her right to vote *in absentia* by no later than August 10, 2020, by emailing at corporate.governance@coscocapital.com and by submitting there the following supporting documents/information:

- Individual Stockholders
 1. Copy of valid government ID of stockholder/proxy
 2. Stock certificate number/s
 3. If appointing a proxy, copy of proxy form duly signed by stockholder (need *not* be notarized)
 4. Email-address and contact number of stockholder or proxy
- Multiple Stockholders or joint owners
 1. Stock certificate number/s
 2. Proof of authority of stockholder voting the shares signed by the other registered stockholders, for shares registered in the name of multiple stockholders (need *not* be notarized)
 3. Copy of valid government IDs of all registered stockholders
 4. Email-address and contact number of the authorized representative
- Corporate Stockholders
 1. Secretary's Certification of Board resolution appointing and authorizing a proxy to participate in the ASM
 2. Valid government ID of the authorized representative
 3. Stock certificate number/s
 4. Email-address and contact number of the authorized representative
- Stockholders with Shares under broker account
 1. Certification from the broker as to the number of shares owned by the stockholder
 2. Valid government ID of stockholder
 3. If appointing a proxy, copy of proxy form duly signed by stockholder (need *not* be notarized)
 4. Email-address and contact number of stockholder or proxy

Online Voting

The stockholders who have sent us their intention to participate in the ASM shall be notified via email of their log-in passwords for the voting portal. The stockholders can then cast their votes following these simple steps:

1. Log-in to the voting portal by clicking the link on our company website.
2. Use the log-in passwords sent by email to the email address of the stockholder provided to the Company to access the voting portal.

3. Upon accessing the portal, the stockholder can vote on each agenda item.
4. Once the stockholder has finalized his/her vote, he can proceed to submit his vote by clicking the "Submit" button.

ASM Livestream

The stockholders who have the log-in passwords can participate in the ASM to be broadcasted live by the Company in our website. Further instructions on how to access the live stream will also be posted at www.coscocapital.com

There will be video recordings of the ASM which a stockholder on record may avail upon request.

Open Forum

There will be Open Forum during the meeting, where representatives of the Company may answer as many questions as time will allow. However, a stockholder may send their questions in advance by sending an email at corporate.governance@coscocapital.com on or before August 17, 2020.

The Company's Investor Relations Officer will answer questions received but not answered during the ASM by email.

For any queries or concerns, please contact the office of the Assistant Corporate Secretary at (632) 8523-3055 or via email at corporate.governance@coscocapital.com

Management's Discussion and Analysis of Operations

The following discussion and analysis of the Group's results of operations, financial condition and certain trends, risks and uncertainties that may affect the Group's business should be read in conjunction with the auditors' reports and the Group's 2019 audited consolidated financial statements and notes attached herewith as Annex "B".

Key Performance Indicators

The following financial ratios are considered by management as key performance indicators of the Group's operating results as well as its financial condition:

- Return on investment (Net income/ Ave. stockholders' equity) - measures the profitability of stockholders' investment
- Profit margin (Net income/ Net revenue) - measures the net income produced for each peso of sales
- EBITDA to interest expense (EBITDA/ Interest expense) – measures the ability of the Group to pay interest of its outstanding debts
- Current ratio (Current asset/ Current liabilities) - measures the short-term debt-paying ability of the Group
- Asset turnover (Net revenue/ Average total assets) - measures how efficiently assets are used to generate revenues
- Asset to equity ratio (Assets/ Shareholders' equity) - indicates the Group's leverage used to finance the firm
- Debt to equity ratio (Liabilities/ Shareholders' Equity) -measure of a Group's financial leverage

The table below shows the key performance indicators for the past three years:

Performance Indicators	2019	2018	2017
Return on investment	16.60%	10.47%	10.10%
Profit margin	9.27%	5.04%	5.13%
EBITDA to interest expense	8.65x	8.64x	8.71x
Current ratio	3.45:1	2.47:1	1.88:1
Asset turnover	1.13:1	1.25:1	1.17:1
Asset to equity	1.54:1	1.64:1	1.67:1
Debt to equity ratio	0.54:1	0.64:1	0.67:1

These financial ratios were calculated based on the consolidated financial statements of Cosco Capital, Inc. and its subsidiaries as described more appropriately in Note 1 to the audited financial statements attached in Annex A hereof.

Comparative Years 2019 and 2018

The table below shows the consolidated results of operations of the Group for the years ended December 31, 2019 and 2018.

<i>(In Thousands)</i>	FY2019	%	FY2018	%	INCREASE (DECREASE)	%
REVENUES	166,066,712	100.00%	168,210,357	100.00%	(2,143,644)	-1.27%
COST OF SALES/SERVICES	136,177,666	82.00%	139,809,619	83.12%	(3,631,953)	-2.60%
GROSS PROFIT	29,889,046	18.00%	28,400,738	16.88%	1,488,308	5.24%
OTHER OPERATING INCOME	3,262,853	1.96%	2,994,765	1.78%	268,088	8.95%
GROSS OPERATING INCOME	33,151,900	19.96%	31,395,503	18.66%	1,756,397	5.59%
OPERATING EXPENSES	19,147,089	11.53%	18,326,809	10.90%	820,280	4.48%
INCOME FROM OPERATIONS	14,004,811	8.43%	13,068,694	7.77%	936,117	7.16%
OTHER INCOME (CHARGES) - net	4,909,862	2.96%	(1,301,028)	-0.77%	6,210,890	477.38%
INCOME BEFORE INCOME TAX	18,914,673	11.39%	11,767,667	7.00%	7,147,007	60.73%
INCOME TAX EXPENSE	3,521,465	2.12%	3,285,862	1.95%	235,604	7.17%
NET INCOME FOR THE YEAR	15,393,208	9.27%	8,481,805	5.04%	6,911,403	81.49%
Equity Holders of the Parent Company	11,597,381	6.98%	5,381,485	3.20%	6,215,896	115.51%
Non-controlling interests	3,795,827	2.29%	3,100,319	1.84%	695,508	22.43%
	15,393,208	9.27%	8,481,805	5.04%	6,911,404	81.49%
EARNINGS PER SHARE (EPS)	1.65437		0.75975			117.75%
CORE EPS	0.83754		0.73362			14.16%

Growth in Revenues

Cosco Capital, Inc. and subsidiaries (the "Group") posted a consolidated revenue of P166.06 Billion during the year ended December 31, 2019 which reflects a decrease by P2.14 Billion or 1.27% compared to last year's revenue of P168.21 Billion.

The 2019 revenue figures do not anymore include the revenue contributions from Liquigaz in view of the divestment of the group's equity interests which was closed and completed on February 13, 2019. Excluding Liquigaz's revenue contribution in 2018 amounting to about P17.09 Billion, for like for like comparability, consolidated revenues of all the business segments in 2019 would reflect a normalized growth of 9.89% year on year over 2018 performance.

Growth in Net Income

During the same year, the Group realized a consolidated net income of P15.39 Billion which is higher by P6.91 Billion representing a growth of 81.49% as compared to last year's net income of P8.48 Billion which was restated to reflect the retrospective effect of the adoption of new lease accounting standard on Grocery Retail, Real Estate, Liquor Distribution and Specialty Retail segments' net income.

The 2019 net income includes a one-time gain realized from the sale of the group's equity interest in Liquigaz Philippines Corporation amounting to P6.07 Billion. Excluding this one-time gain on sale of investment, core consolidated net income for the year ended December 31, 2019 amounted to P9.32 Billion at 5.61% net margin and for a growth of 14.79%.

As discussed more fully in Note 33 to the audited financial statements, the gain on sale previously reported and presented in the quarterly reports in 2019 represents the gain on sale before the effect of share in income recognized from date of acquisition to date of sale which were directly derecognized from the retained earnings account.

Net income attributable to equity holders of the parent company (PATMI) in 2019 amounted to about P11.60 Billion which increased by about P6.21 Billion or 115.51% as compared to the 2018 PATMI amounting to P5.38 Billion. Similarly, excluding the one-time gain from the sale of investment abovementioned, core PATMI in 2019 would amount to P5.87 Billion which is 13.0% higher than the 2018 PATMI of P5.19 Billion.

Segment Revenue & Net Income Contributions

Grocery Retail Segment

During the year 2019, the Group's grocery retail business segment registered a consolidated revenue contribution amounting to P154.49 Billion or an increase of P13.35 Billion or about 9.46% growth as compared to the segment's revenue contribution of P141.14 Billion of last year brought about by its continued aggressive stores expansion program and management's combined efforts to boost revenue.

Consolidated net income contribution in 2019 amounted to P6.77 Billion which increased by P573.29 Million or 9.25% as compared to the net income contribution of P6.20 Billion in 2018. This includes the one-time gain amounting to around P363 Million realized from the sale of shares in PG Lawson. Excluding this non-recurring item, core consolidated net income amounted to P6.75 Billion which registered a growth of 16.0% year on year from the previous year.

Real Estate Segment

The commercial real estate business segment contributed P1.49 Billion to the Group's consolidated revenue in 2019 representing a growth of about P118.54 Million or 8.59% of the segment's revenue contribution in 2018 amounting to P1.38 Billion. This was mainly attributable to the additional leasable area from the new mall assets added to the portfolio during the first quarter of 2018 and in 2019, sustained higher occupancy rates and higher income from its oil storage tanks business unit operating within the Subic Bay Freeport.

Consolidated net income contribution in 2018 amounted to about P1.17 Billion which increased by about P85.79 Million or 7.90% as compared to the net income contribution of P1.08 Billion in 2018, which was restated to reflect the retrospective effect of the adoption of the new lease accounting standard under PFRS 16 effective January 1, 2019.

Liquor Distribution Segment

The liquor distribution business segment contributed about P7.63 Billion to the Group's consolidated revenue in 2019 representing an increase by about P1.11 Billion or 17.12% higher as compared to the 2018 revenue contribution of P6.51 Billion mainly attributable to its continued strong sales performance of its brandy category particularly the Alfonso brand and on the back of its aggressive sales and marketing campaign during the period.

Consolidated net income contribution in 2019 amounted to about P1.21 Billion which increased by P470.15 Million or 63.26% as compared to the net income contribution in 2018 amounting to P743.18 Million, which was restated to reflect the retrospective effect of the adoption of the new lease accounting standard under PFRS 16 effective January 1, 2019.

Specialty Retail

In view of the group's divestment in Liquigaz which was completed in February 2019 following the approval of the transaction by the Philippine Competition Commission, the financial performance of the Specialty Retail segment in 2019 covers only that of Office Warehouse.

Office Warehouse, Inc. contributed about P2.45 Billion to the Group's consolidated revenue during the fiscal year 2019 representing an increase by about P361.83 Million or 17.35% higher as compared to the 2018 revenue contribution of P2.08 Billion mainly attributable to its strong same store sales growth (SSSG) of 12.19% and its enhanced product offerings and aggressive sales and marketing campaign. Net income contribution in 2019 amounted to about P97.03 Million which increased by P31.45 Million or 48.0% as compared to 2018 amounting to P65.58 Million, which was restated to reflect the retrospective effect of the adoption of the new lease accounting standard under PFRS 16 effective January 1, 2019.

Segment Operating & Financial Highlights

Grocery Retail

Net Sales

For the year ended December 31, 2019, the Grocery Retail Segment posted a consolidated net sales of P154,490 million for an increase of P13,351 million or a growth of 9.5% compared to P141,139 million in 2018. New organic stores put up in 2018 were fully operating in 2019 increasing consolidated net sales in addition to robust like for like stores sales growth and revenue contributions from new organic stores established during the year.

Like for like consolidated sales performance indicators of the group for the year ended December 31 are as follow:

	PGOLD	S&R
Net Sales	4.6%	8.3%
Net Ticket	8.5%	7.3%
Traffic	-3.5%	0.9%

Gross Profit

For the year ended December 31, 2019, the Grocery Retail Segment realized an increase of 8.5% in consolidated gross profit from P23,929 million in 2018 at 17.0% margin to P25,951 million at 16.8% margin in 2019, driven by strong sales growth from new and old stores and sustained continuing suppliers' support through additional trade discounts in the form of rebates and conditional discounts granted during the period. The margin slightly declined during the current period accounting primarily to lower supplier support in relation to product cost.

Other Operating Income

Other operating income increased by P322 million or 10.9% from P2,941 million in 2018 to P3,263 million in 2019. This is attributable to increase in concess income, membership income and rent income driven mainly by new stores opened during the year and full operation of new stores opened in 2018.

Operating Expenses

Operating expenses increased by P1,191 million or 7.2% from P16,639 million in December 31, 2018 to P17,830 million in 2019. The incremental operating expenses were mainly attributable to depreciation expense, taxes and licenses, repairs and maintenance, advertising and promotion, credit card charges and manpower expenses principally related to the establishment and operation of new organic stores.

Other Expense - net

Other expenses net of other income amounted to P1,804 million and P1,528 million in December 31, 2019 and 2018, respectively. Interest income increased in December 2019 due to higher placement in short-term investment as compared to placements made in 2018. Interest expense comprised bulk of the account as a result of adoption of the new accounting standard, PFRS 16 – Leases.

Net Income

For the year ended December 31, 2019, the Grocery Retail Segment earned a consolidated net income of P6,773 million at 4.4% net margin and an increase of 9.2% from P6,200 million at 4.4% net margin in 2018. Excluding the one-time gain on sale of investment in joint venture and share in equity investments, core consolidated net income grew by 16.0% at 4.4% and 4.1% net margin in 2019 and 2018, respectively. This was principally driven by the continuous organic expansion of the Grocery Retail Segment's grocery retail outlets on the back of a sustained strong consumer demand. This has been augmented by combined management strategies and programs to boost revenue contributions from the base stores as well as new stores and constant management efforts to strategically control operating expenses.

Commercial Real Estate

The Group's Real Estate Segment posted P2.14 Billion in revenues for the year ended December 31, 2019 or a 5.71% increase from P2.03 Billion from 2018. This was mainly attributable to the additional leasable area from its new mall assets added to its portfolio in early 2018 and 2019, higher occupancy rates and higher income from its oil storage tanks business unit operating within the Subic Bay Freeport.

Income from operations before depreciation increased by P69.43 Million or 4.5% from P1.53 Billion in 2018 to P1.60 Billion for the year ended December 31, 2019.

Net income for the year ended December 31, 2019 amounted to P1.22 Billion or a 12.8% increase from last year's P1.08 Billion brought about by additional rental revenue.

Liquor Distribution

Revenues generated by the Liquor Distribution Segment increased to P10.72 Billion in 2019 or 22.52% growth from last year's P8.74 Billion on the back of a robust sales performance in volume (no. of cases) sold which grew by about 43%. The strong sales performance is still principally driven by its brandy portfolio which accounts for more than 70% of sales augmented by the strong performance of the other spirits sector.

Income from operations increased to P1.68 Billion in 2019 or 66.63% higher from last year's P1.01 Billion.

Net income for the 2019 period increased by P474.09 Million from P738.36 Million in 2018 to P1.21 Billion in 2019 or 64.20% growth.

Specialty Retail

Office Warehouse

As at December 31, 2019, the company had expanded its retail network to 89 stores from 46 stores at acquisition date sometime in May 2014. Net selling area also increased to 15,589 sq.m. or a cumulative growth by 41.25% from the date of acquisition. Sales revenues increased to P2.45 Billion in 2019 or 17.3% higher as compared to the 2018 revenue of P2.09 Billion mainly attributable to its continuing stores network expansion program, enhanced product offerings as well as aggressive sales and marketing campaign which also drove a strong SSSG of 12.19% during the fiscal year 2019. Net income contribution in 2019 amounted to about P97.03 Million which increased by P31.45 Million or 48% as compared to the net income contribution in 2018 amounting to P65.58 Million

Liquigaz

On October 19, 2018, Liquigaz parent company, Canaria Holdings Corporation (CHC) and Fernwood Holdings, Inc. signed a Share Purchase Agreement whereby Canaria sells all its shares in Liquigaz Philippines Corporation and Calor Phils. Holdings, Inc. to Fernwood Holdings, Inc. The transaction was subsequently approved by the Philippine Competition Commission on January 17, 2019 paving the way for its closing and completion on February 13, 2019.

The sale of investment in Liquigaz resulted to a one-time gain of P6.07 Billion, net of capital gains tax.

Revenues generated in 2018 amounted to P17.09 Billion and net income of P626.23 Million.

Consolidated Statements of Financial Position

Shown below are the comparative consolidated financial position of the Group:

(In Thousands)	2019	%	2018 (As Restated)	%	INCREASE (DECREASE)	%
Current Assets						
Cash and cash equivalents	24,402,014	15.80%	16,784,861	12.03%	7,617,153	45.38%
Receivables - net	16,637,892	10.77%	6,630,927	4.75%	10,006,966	150.91%
Financial asset at FVOCI	9,209	0.01%	7,026	0.01%	2,182	31.06%
Financial asset at FVPL	34,921	0.02%	36,503	0.03%	(1,582)	-4.33%
Inventories	24,722,271	16.01%	23,931,657	17.15%	790,614	3.30%
Due from related parties	192,068	0.12%	47,971	0.03%	144,096	300.38%
Prepayments and other current assets	2,000,502	1.30%	2,609,348	1.87%	(608,846)	-23.33%
	67,998,876	44.03%	50,048,292	35.87%	17,950,584	35.87%
Assets of disposal group classified as held for sale	-	-	7,320,895	5.25%	(7,320,895)	-100.00%
Total current assets	67,998,876	44.03%	57,369,187	41.11%	10,629,689	18.53%
Noncurrent Assets						
Property and equipment - net	27,927,953	18.08%	26,343,793	18.88%	1,584,160	6.01%
Right-of-use assets	21,700,103	14.05%	20,082,426	14.39%	1,617,676	8.06%
Investment properties - net	11,125,998	7.20%	10,836,618	7.77%	289,379	2.67%
Intangibles and goodwill - net	21,089,717	13.65%	21,095,502	15.12%	(5,786)	-0.03%
Investments	741,175	0.48%	603,175	0.43%	138,000	22.88%
Deferred oil and mineral exploration costs		0.00%	123,365	0.09%	(123,365)	-100.00%
Deferred tax assets-net	566,284	0.37%	96,263	0.07%	470,021	488.27%
Other non-current assets	3,299,789	2.14%	2,987,211	2.14%	312,578	10.46%
Total noncurrent assets	86,451,018	55.97%	82,168,354	58.89%	4,282,665	5.21%
Total Assets	154,449,894	100.00%	139,537,541	100.00%	14,912,354	10.69%
LIABILITIES						
Current Liabilities						
Accounts payable and accrued expenses	15,127,981	9.79%	13,016,166	9.33%	2,111,814	16.22%
Income tax payable	1,164,727	0.75%	930,909	0.67%	233,818	25.12%
Short-term loans payable	871,124	0.56%	4,866,300	3.49%	(3,995,176)	-82.10%
Current portion of long-term borrowing	43,685	0.03%	49,999	0.04%	(6,314)	-12.63%
Lease liabilities due within one year	567,682	0.37%	725,846	0.52%	(158,164)	-21.79%
Due to related parties	1,343,460	0.87%	1,365,863	0.98%	(22,403)	-1.64%
Other current liabilities	596,992	0.39%	434,901	0.31%	162,091	37.27%
	19,715,651	12.77%	21,389,984	15.33%	(1,674,333)	-7.83%
Liabilities of disposal group classified as held for sale	-	-	1,834,651	1.31%	(1,834,651)	-100.00%
Total current liabilities	19,715,651	12.77%	23,224,635	16.64%	(3,508,984)	-15.11%
Noncurrent Liabilities						
Retirement benefit liability	955,818	0.62%	508,533	0.36%	447,285	87.96%
Lease liabilities	26,101,259	16.90%	23,496,626	16.84%	2,604,632	11.09%
Deferred tax liabilities	128,586	0.08%	177,626	0.13%	(49,040)	-27.61%
Long term loans payable - net of debt issue cost	5,094,577	3.30%	6,572,209	4.71%	(1,477,632)	-22.48%
Other non-current liabilities	393,219	0.25%	433,342	0.31%	(40,123)	-9.26%
Total noncurrent liabilities	32,673,459	21.15%	31,188,337	22.35%	1,485,123	4.76%
Total Liabilities	52,389,110	33.92%	54,412,971	39.00%	(2,023,861)	-3.72%
EQUITY						
Capital stock	7,405,264	4.79%	7,405,264	5.31%	-	-
Additional paid-in capital	9,634,644	6.24%	9,634,644	6.90%	-	-
Retirement benefits reserve	5,412	0.00%	113,822	0.08%	(108,410)	-95.25%
Other reserve	5,602	0.00%	3,420	0.00%	2,182	63.78%
Treasury shares	(1,403,974)	-0.91%	(1,197,727)	-0.86%	(206,247)	17.22%
Retained earnings	54,167,212	35.07%	42,775,502	30.66%	11,391,710	26.63%
Total Equity Attributable to Equity Holders of Parent Company	69,814,160	45.20%	58,734,925	42.09%	11,079,235	18.86%
Non-controlling interest	32,246,624	20.88%	26,389,644	18.91%	5,856,980	22.19%
Total Equity	102,060,784	66.08%	85,124,569	61.00%	16,936,215	19.90%
Total Liabilities and Equity	154,449,894	100.00%	139,537,541	100.00%	14,912,353	10.69%

Current Assets

Cash and cash equivalents amounted to P24.40 Billion as at December 31, 2019 with an increase of P7.62 Billion or 45.38% from December 31, 2018 balance. The increase was due basically to the net effect of the net operating cash flows, collection of receivables and settlement of trade and non-trade payables principally from the Grocery Retail Segment and Parent Company, payment of 2019 cash dividends, settlement of loans and payments for capital expenditures during the year.

Receivables increased by 150.91% from December 31, 2018 balance of P6.63 Billion to this year's balance of P16.64 Billion due mainly to the net effect of collections made and the loans granted to companies under common control.

Assets of disposal group classified as held for sale pertain to current and noncurrent assets of Liguigaz Philippine Corporation (LPC) which were reclassified as at December 31, 2018 in view of the sale of the group's equity interest in LPC) through a Share Purchase Agreement signed on October 19, 2018 between Canaria Holdings Corporation (CHC) and Fernwood Holdings, Inc. which was subsequently approved by the Philippine Competition Commission on January 17, 2019. The sale transaction was closed and completed on February 13, 2019, thus paving the way for the derecognition of these assets in the consolidated statements of financial position.

Financial assets at fair value through comprehensive income (FVOC) increased by 31.06% from December 31, 2018 balance of P7.02 Million to this year's balance of P9.21 Million due mainly to the effect of changes in stock prices.

Financial assets at fair value through profit or loss (FVPL) decreased by 4.33% from December 31, 2018 balance of P36.50 Million to this year's balance of P34.92 Million due mainly to the effect of changes in stock market prices.

Inventories increased by 3.30% from 2018 balance of P23.93 Billion to this year's balance of P24.72 Billion due additional stocking requirement of existing and new operating stores, as well as the additional stocking requirements of the Liquor Distribution segment. Bulk of the inventory account pertains to the merchandise inventory stocks of the Grocery Retail Segment amounting to P19.53 Billion.

Prepaid expenses and other current assets decreased by P608.85 Million or 23.33% at the end of December 2019, mainly due to amortization of prepayments made for advertising, taxes and licenses, availment of new policies for insurance of new stores and application of input VAT by Grocery Retail, Real Estate and Liquor Distributions segments.

Due from related parties increased by P144.09 Million at the end of December 2019, due primarily to additional advances made.

Non-current Assets

As at December 31, 2019 and 2018, total non-current assets amounted to P86.41 Billion or 55.96% of total assets, and P82.17 Billion or 58.89% of total assets, respectively, for an increase of P4.24 Billion or 5.17%.

Property and equipment-net pertains to the buildings and equipment owned mostly by the Grocery Retail segment. Book values of property and equipment increased by P1.58 Billion from P26.34 Billion in December 2018 to P27.93 Billion in December 2019 due principally to capital expenditures pertaining to new stores established by the Grocery Retail Segment.

Right-of-use assets (ROU) represents the values recognized from long-term lease contracts covering land and buildings utilized by Grocery Retail, Real Estate, Liquor Distributions and Specialty Retail segments pursuant to the retrospective adoption of the new lease accounting standards under PFRS 16 which became effective January 1, 2019. . Book values of ROU increased by P1.62 Billion from P20.08 Billion in December 2018 to P21.70 Billion in December 2019 due principally to additional ROU assets recognized from new lease contracts entered into pertaining to new organic stores established in the current period net of depreciation recognized during the same year.

Investment properties-net pertains to the land, buildings and equipment owned by the Real Estate segment. Book values of investment properties increased by P289.38 Million from P10.84 Billion in December 2018 to P11.12 Billion in December 2019.

Investments increased by P138 Million from P603.17 Million in December 2018 to P741.17 Million in December 2019 representing the additional equity investments by the Liquor Distribution segment in Pernod Philippines.

Intangibles and goodwill-net decreased by P5.78 Million from P21.09 Billion in December 2018 to P21.09 Billion in December 2019 primarily due to the periodic amortizations of computer software cost recognized during the year.

Deferred tax assets increased by P432.59 Million or 448.35% from P96.26 Million in December 2018 to P527.86 Million in December 2019 resulting mainly from the additional recognition of deferred tax assets by the Grocery Retail segment from ROU assets recognized.

Other non-current assets increased by P312.58 Million from P2.99 Billion in December 2018 to P3.30 Billion in December 2019. About 73% of these assets are attributable to the Grocery Retail Segment and the increase was primarily due to additional security deposits, advance payment to contractors and advance rentals in relation to new leases acquired for new stores development pipeline as well as the accrued rental income pertaining to future periods in accordance with the lease accounting standards under PAS 17.

Current Liabilities

As at December 31, 2019 and 2018, total current liabilities amounted to P19.71 Billion and P23.22 Billion respectively, for a decrease of P3.51 Billion or 15.11%.

About 75% of **accounts payable and accrued expenses** pertains to the trade payable to suppliers by the Grocery Retail Segment and the balance mostly to the contractors and suppliers of the Real Estate, Liquor Distribution and Specialty Retail segments. The increase by P2.11 Billion or 16.22% was primarily due to increase of trade and non-trade liabilities and declaration of dividends by the Grocery Retail segment and Parent Company in 2019.

Significant portion of the **income tax payable** pertains to that of the Grocery Retail segment. The increase by P233.82 Million from P930.31 Million as at December 2018 to P1.16 Billion as at December 31, 2019 is mainly due to additional income taxes incurred relative to the increase in net taxable income during the year 2019 in relation to the same period in 2018.

Liabilities of disposal group classified as held for sale pertain to current and noncurrent liabilities under LPC which were reclassified as at December 31, 2018 in view of the sale of the group's equity interest in LPC through a Share Purchase Agreement signed on October 19, 2018 between Canaria Holdings Corporation (CHC) and Fernwood Holdings, Inc. which was subsequently approved by the Philippine Competition Commission on January 17, 2019. The sale transaction was closed and completed on February 13, 2019, thus paving the way for their derecognition from the consolidated statements of financial position.

Short-term loans payable account decreased by P3.99 Billion mainly due to settlements made by the Grocery Retail, Real Estate and Liquor Distribution segments.

Current portion of long-term borrowing decreased by P6.1 Million mainly due to amortization of debt issue cost.

Lease liabilities due within one year account increased by P82.35 Million from P643.49 Million in December 2018 to P725.85 Million in December 2019 due principally to the net effect of additional leases, interest expense amortization recognized and lease payments made during the current period pertaining current portions.

Due to related parties decreased by P22.40 Million mainly due to the settlements made.

Other current liabilities decreased by 37.27% from P434.90 Million as at December 31, 2018 to P597.0 Million as at December 31, 2019 relatively due to deposits from tenants and sale of gift certificates during the year by the Grocery Retail segment.

Noncurrent Liabilities

As at December 31, 2019 and December 31, 2018, total non-current liabilities amounted to P32.67 Billion and P31.19 Billion, respectively, for an increase of P1.48 Billion or 4.76%.

Long-term loans payable-net of current portion decreased by P1.48 Billion mainly due to the settlements by the Grocery Retail segment of its long term bank loans.

Lease liabilities represents the values recognized from long-term lease contracts covering land and buildings utilized by Grocery Retail, Liquor Distributions, Real Estate and Specialty Retail segments pursuant to the retrospective adoption of the new lease accounting standards under PFRS 16 which became effective January 1, 2019. . The account increased by P2.60 Billion from P23.50 Billion in December 2018 to P26.10 Billion in December 2019 due principally to the net effect of additional leases, interest expense amortization recognized and lease payments made during the current year.

Retirement benefit liability increased by P447.28 Million mainly due to the net effect of recognition of additional benefit cost during 2019 and the effect of additional remeasurements arising from the effect of changes in financial assumptions and experience adjustments.

Other non-current liabilities decreased by P40.12 Million or 9.26% from P433.34 Million in December 2018 to P393.22 Million as at December 31, 2019 due to application of customer deposits and advance rentals by the Real Estate segment.

Equity

As at December 31, 2019 and December 31, 2018, total equity amounted to P102.02 Billion and P85.12 Billion, respectively, for an increase of P16.90 Billion or 19.85%.

Retirement benefits reserve pertain to adjustments made in compliance with the accounting standard covering employee benefits. As at December 2019, the account decreased by P108.41 Million due to unrealized loss on re-measurement of defined benefit liability as a result of changes in financial assumptions and experience adjustments.

Treasury shares increased by P206.25 million from P1.20 Billion in December 2018 to P1.40 Billion as at December 31, 2019 due to additional buyback by the Parent Company during the year in relation to its existing buyback program.

Retained earnings increased by P11.39 Billion or 26.63% from P42.77 Billion in December 2018 to P54.17 Billion as at December 31, 2019 due to profit realized by the Group, net of cash dividend declaration and the effect of adoption of PFRS 16, *Leases*.

Non-controlling interest increased by P5.85 Billion or 22.19% from P26.39 Billion in December 2018 to P32.25 Billion as at December 31, 2019 mainly due to share in the consolidated profit and the effect of top-up placement by the Grocery Retail segment.

Sources and Uses of Cash

A brief summary of cash flow movements is shown below:

	<u>For the years ended December 31</u>	
<i>(In thousands)</i>	2019	2018
Net cash flows from operating activities	P17,139,067	P12,184,405
Net cash flows used in investing activities	(4,544,140)	(5,259,386)
Net cash flows used in financing activities	(5,006,579)	(5,517,456)
Net increase in cash and cash equivalents	P7,617,153	P1,431,763

Net cash generated from operating activities during the current year is basically attributable to the cash generated from operations and effect of the net settlement of trade payable accounts by the Grocery Retail and Liquor Distribution Segment during the year, purchase of inventories for new stores stocking requirements and other related current operating items to support the segment's expansion.

On the other hand, net cash from and used in investing activities mainly pertains to the funds used for additional capital expenditures by the Grocery Retail segment's new stores expansion and additional assets acquisition and capital expenditures by the Real Estate segment and Specialty Retail segment and the proceeds from divestment of Liquigaz.

Net cash used in financing activities principally resulted from the net settlements of bank loans by the Grocery Retail, Liquor Distribution, Real Estate and Parent Company during the year, repayment of principal and interest by the group relating to lease liability, payment of 2019 cash dividends declared and shares buyback program by the Grocery Retail segment and Parent Company.

Management believes that the current levels of internally generated funds from its operating activities and its present cash position enables the Group to meet its immediate future liquidity requirements under its current work program commitments as well as other strategic investment opportunities. With its strong current financial position, this can be augmented through availments from existing untapped banking and credit facilities as and when required.

Comparative Years 2018 and 2017

The table below shows the consolidated results of operations of the Group for the years ended December 31, 2018 and 2017.

<i>(In Thousands)</i>	2018	%	2017	%	INCREASE (DECREASE)	%
REVENUES	168,210,357	100.00%	145,638,800	100.00%	22,571,556	15.50%
COST OF SALES/SERVICES	139,809,619	83.12%	120,260,991	82.57%	19,548,628	16.26%
GROSS PROFIT	28,400,738	16.88%	25,377,809	17.43%	3,022,929	11.91%
OTHER OPERATING INCOME	2,994,765	1.78%	2,760,841	1.90%	233,924	8.47%
GROSS OPERATING INCOME	31,395,503	18.66%	28,138,650	19.32%	3,256,853	11.57%
OPERATING EXPENSES	18,326,809	10.90%	15,854,229	10.89%	2,472,580	15.60%
INCOME FROM OPERATIONS	13,068,694	7.77%	12,284,421	8.43%	784,273	6.38%
OTHER INCOME (CHARGES)						
- net	(1,301,028)	-0.77%	(1,638,282)	-1.12%	337,254	20.59%
INCOME BEFORE INCOME TAX	11,767,667	7.00%	10,646,139	7.31%	1,121,527	10.53%
INCOME TAX EXPENSE	3,285,862	1.95%	3,175,439	2.18%	110,423	3.48%
NET INCOME FOR THE YEAR	8,481,805	5.04%	7,470,701	5.13%	1,011,104	13.53%
Net Income Attributable to:						
Equity holders of the Parent Company	5,381,485	3.20%	4,731,617	3.25%	649,869	13.73%
Non-controlling interests	3,100,319	1.84%	2,739,084	1.88%	361,235	13.19%
	8,481,805	5.04%	7,470,701	5.13%	1,011,104	13.53%
EPS	0.75975		0.66364			14.48%

Growth in Revenues

Cosco Capital, Inc. and subsidiaries (the "Group") posted a consolidated revenue of P168.21 Billion for the year ended December 31, 2018 which reflects an increase by P22.57 Billion or representing a growth of 15.50% compared to last year's revenue of P145.64 Billion.

The growth in consolidated revenues in 2018 was largely driven by a combination of the Group's sustained organic growth from its grocery retail segment; sustained revenue growth from the LPG business unit driven by the gradual recovery of global petroleum and gas prices and on the back of a very strong growth in sales volume; increase revenue contributions from the real estate segment with its consistent high capacity utilization of its rental assets portfolio coupled by additional leasable spaces from new commercial assets; and the robust sales performance and growth in revenue contributions from the liquor and wine distribution business segment.

Growth in Net Income

During the same period, the Group realized a consolidated net income of P8.48 Billion which is higher by P1.01 Billion representing a 13.53% increase as compared to last year's consolidated net income of P7.47 Billion which were restated to reflect the retrospective effect of the adoption of new lease accounting standard on Grocery Retail, Real Estate, Liquor Distribution and Specialty Retail segments' net income.. Net income attributable to equity holders of the parent company (PATMI) amounted to P5.38 Billion in 2018 which increased by about P649.87 Million or 13.73% as compared to the 2017 PATMI amounting to P4.73 Billion.

Segment Revenue & Net Income Contributions

Grocery Retail Segment

During the year 2018, the Group's grocery retail business segment registered a consolidated revenue contribution amounting to P141.14 Billion or an increase of P16.43 Billion or about 13.18% growth as compared to the segment's revenue contribution of P124.70 Billion of last year brought about by its continued aggressive stores expansion program and management's combined efforts to boost revenue.

Consolidated net income contribution in 2018 amounted to P6.2 Billion which increased by P705.38 Million or 12.84% as compared to the net income contribution of P5.49 Billion in 2017, which were restated to reflect the retrospective effect of the adoption of new lease accounting standard. This includes the one-time gain amounting to around P363 Million realized from the sale of shares in PG Lawson. Excluding this non-recurring item, core consolidated net income amounted to P5.84 Billion which still registered a growth of 3.2% year on year from the previous year.

Real Estate Segment

The commercial real estate business segment contributed P1.38 Billion to the Group's consolidated revenue in 2018 representing a growth of about P88.69 Million or 6.87% of the segment's revenue contribution in 2017 amounting to P1.29 Billion. This was mainly attributable to the additional leasable space from four (4) new mall assets added to its portfolio, where three assets were opened during the first quarter of 2018 and one in December 2017, higher occupancy rates and higher income from its oil storage tanks business unit operating within the Subic Bay Freeport.

Consolidated net income contribution in 2018 amounted to about P1.08 Billion which increased by about P138.37 Million or 14.60% as compared to the net income contribution of P947.59 Million in 2017, which were restated to reflect the retrospective effect of the adoption of new lease accounting standard.

Liquor Distribution Segment

The liquor distribution business segment contributed about P6.51 Billion to the Group's consolidated revenue in 2018 representing an increase by about P1.82 Billion or 38.77% higher as compared to the 2017 revenue contribution of P4.69 Billion mainly attributable to its strong sales performance of its brandy category particularly the Alfonso brand and on the back of its aggressive sales and marketing campaign during the year.

Consolidated net income contribution in 2018 amounted to about P743.18 Million which increased by P44.63 Million or 6.39% as compared to the net income contribution in 2017 amounting to P698.58 Million, which was restated to reflect the retrospective effect of the adoption of new lease accounting standard.

Specialty Retail

The LPG business unit contributed about P17.09 Billion to the Group's consolidated revenue in 2018 representing an increase by about P3.96 Billion or 30.18% higher as compared to the 2017 revenue contribution of P13.13 Billion mainly attributable to the effects of the continued improvements and recovery of global petroleum and gas prices in 2018 and on the back of a 9.8% growth in volume sold.

As a result, net income contribution in 2018 amounted to P626.23 Million which increased by P157.03 Million or 33.47% as compared to that of 2017 amounting to P469.20 Million.

On the other hand, our office supplies and technology retail business unit contributed about P2.09 Billion to the Group's consolidated revenue in 2018 representing an increase by about P265.44 Million or 14.58% higher as compared to the 2017 revenue contribution of P1.82 Billion mainly attributable to its strong same store sales growth (SSSG) of 9.09% and its continuing stores network expansion program, enhanced product offerings and aggressive sales and marketing campaign. Net income contribution in 2018 amounted to about P65.53 Million which increased by P5.53 Million or 11.07% as compared to the net income contribution in 2017 amounting to P58.99 Million, which were restated to reflect the retrospective effect of the adoption of new lease accounting standard.

Segment Operating & Financial Highlights

Net Sales

For the year ended December 31, 2018, the Grocery Retail segment posted a consolidated net sales of P141,139 million for an increase of P16,436 million or a growth of 13.2% compared to P124,703 million in 2017. New organic stores put up in 2017 were fully operating in 2018 increasing consolidated net sales in addition to robust like for like stores sales growth and revenue contributions from new organic stores established during the year.

Like for like consolidated sales performance indicators of the group for the year ended December 31 are as follow:

	PGOLD	S&R
Net Sales	5.7%	8.4%
Net Ticket	8.0%	8.1%
Traffic	-2.1%	0.2%

Gross Profit

For the year ended December 31, 2018, the Grocery Retail segment realized an increase of 10.3% in consolidated gross profit from P21,688 million in 2017 at 17.4% margin to P23,929 million at 17.0% margin in 2018, driven by strong sales growth from new and old stores and sustained continuing suppliers' support through additional trade discounts in the form of rebates and conditional discounts granted during the period.

Other Operating Income

Other operating income increased by P249 million or 9.2% from P2,692 million in 2017 to P2,941 million in 2018. This is attributable to increases in concess income and membership income driven mainly by full operation of 2017 new stores and contribution from new stores opened in 2018. In 2017, S&R tied up with Unioil and offered a P3.00 discount on gasoline and P2.00 off on diesel per liter, to all members using their issued membership cards with magnetic stripes. In March 14 to 18 and September 26 to 30, 2018, S&R held its 5-day sale Members' Treat.

Operating Expenses

Operating expenses increased by P2,028 million or 13.9% from P14,611 million in the year ended December 31, 2017 to P16,639 million in 2018. The incremental operating expenses were mainly attributable to manpower costs, utilities, depreciation expense and taxes, principally related to the establishment and operation of new organic stores.

Other Expense - net

Other expenses net of other income amounted to P1,528 million for year ended December 31, 2018 due to recognition of a one-time gain on sale of investment in joint venture amounting to P363 million. Interest income increased in the year ended December 2018 due to higher placement in short-term investment as compared in 2017.

Net Income

For the year ended December 31, 2018, the Grocery Retail segment earned a consolidated net income of P6,200 million at 4.4% net margin and an increase of 12.8% from P5,494 million at 4.4% net margin in 2017. Excluding the one-time gain on sale of investment in joint venture and share in equity investments, core consolidated net income for the year ended December 31, 2018 amounted to P5,820 million at 4.1% net margin and an increase of 3.2%. This was principally driven by the continuous organic expansion of the Grocery Retail segment's grocery retail outlets on the back of a sustained strong consumer demand. This has been augmented by combined management strategies and programs to boost revenue contributions from both the base stores as well as new stores established in 2018.

Commercial Real Estate

The Group's Real Estate Segment posted P2.03 Billion in revenues for the year ended December 31, 2018 or a 8.38% increase from P1.87 Billion from 2017. This was mainly attributable to the additional leasable space from its four new mall assets, where three assets opened during the first quarter of 2018 and one in December 2017, higher occupancy rates and higher income from its oil storage tanks business unit operating within the Subic Bay Freeport.

Income from operations before depreciation increased by P82.53 Million or 9.7% from P1.45 Billion in 2017 to P1.53 Billion for the year ended December 31, 2018.

Net income for the year ended December 31, 2018 amounted to P1.08 Billion or a 6.2% increase from last year's P922.09 Million brought about by additional rental revenue.

Liquor Distribution

Revenues generated by the Liquor Distribution Segment increased to P8.75 Billion in 2018 or 31.28% growth from last year's P6.66 Billion on the back of a robust sales performance in volume (no. of cases) sold which grew by about 32%. The growth in revenue is still principally driven by its brandy portfolio which accounts for about 67% of sales augmented by the increase in sales of the other spirits sector. Wines and specialty beverages also experienced dramatic growths in the current period and contributed to the segment's overall sales growth.

Income from operations increased to P1.0 Billion in 2018 or 12.43% higher from last year's P896.28 Million.

Net income for the 2018 period increased by P107.13 Million from P631.23.46 Million in 2017 to P738.37 Million in 2017 or 16.97% growth.

Specialty Retail

Office Warehouse

As at December 31, 2018, the company had expanded its retail network to 88 stores from 46 stores at acquisition date. Net selling area also increased to 16,738 sq.m. or a growth by 4.97% in 2018 as compared to 2017.

Sales revenue increased to P2.09 Billion in 2018 or 14.49% higher as compared to the 2017 revenue of P1.82 Billion mainly attributable to its continuing organic stores network expansion program, enhanced product offerings as well as aggressive sales and marketing campaign which also drove a strong SSSG of 9.09% in 2018.

Net income in 2018 amounted to about P65.58 Million which increased by P10.01 Million or 18.0% as compared to the net income in 2017 amounting to P55.57 Million.

Liquigaz

The company started the commercial operation of its storage facility expansion project in Sariaya, Quezon (Southern Luzon) during the first quarter in 2018. When completed and fully operational, this new facility, which will increase the company's existing capacity to 25,000 MT, will not only strategically serve the Southern Luzon market but also serve as a platform for its planned geographic expansion into the Visayas and Mindanao markets.

Revenues generated in 2018 amounted to P17.09 Billion or 30.18% higher as compared to the 2017 revenues of P13.13 Billion mainly attributable to both the continued improvements in global petroleum and gas prices and a 9.80% growth in sales volume in 2018. As a result, net income in 2018 amounted to P626.23 Million which increased by P157.03 Million or 33.47% as compared to that of 2017 amounting to P469.20 Million.

On October 19, 2018, Liquigaz parent company, Canaria Holdings Corporation (CHC) and Fernwood Holdings, Inc. signed a Share Purchase Agreement whereby Canaria sells all its shares in Liquigaz Philippines Corporation and Calor Phils. Holdings, Inc. to Fernwood Holdings, Inc. The transaction was subsequently approved by the Philippine Competition Commission on January 17, 2019 paving the way for its closing and completion on February 13, 2019. The divestment transaction and other relevant information will be reflected in the group's financial reports for the first quarter of 2019.

Consolidated Statements of Financial Position

Shown below are the comparative consolidated financial position of the Group:

<i>(In Thousands)</i>	2018	%	2017	%	INCREASE (DECREASE)	%
ASSETS						
Current Assets						
Cash and cash equivalents	16,784,861	12.00%	15,353,098	11.90%	1,431,763	9.33%
Receivables - net	6,630,927	4.74%	7,902,970	6.12%	(1,272,044)	-16.10%
Financial asset at FVOC	7,026	0.01%	8,618	0.01%	(1,592)	-18.47%
Financial asset at FVPL	36,503	0.03%	46,888	0.04%	(10,385)	-22.15%
Inventories	23,931,657	17.12%	21,194,691	16.43%	2,736,966	12.91%
Due from related parties	47,971	0.03%	74,354	0.06%	(26,382)	-35.48%
Prepayments and other current assets	2,609,349	1.87%	2,159,188	1.67%	450,162	20.85%
	50,048,293	35.80%	46,739,806	36.22%	3,308,488	7.08%
Assets-held-for sale	7,320,895	5.24%	-	0.00%	7,320,895	100.00%
Total current assets	57,369,188	41.03%	46,739,806	36.22%	10,629,382	22.74%
Noncurrent Assets						
Property and equipment - net	26,343,793	18.84%	26,622,703	20.63%	(278,910)	-1.05%
Right-of-use assets	20,082,426	14.36%	18,164,367	14.08%	1,918,059	10.56%
Investment properties - net	10,836,618	7.75%	10,753,607	8.33%	83,011	0.77%
Intangible assets	21,095,502	15.09%	22,776,064	17.65%	(1,680,562)	-7.38%
Investments	603,175	0.43%	933,797	0.72%	(330,622)	-35.41%
Deferred oil and mineral exploration costs	123,365	0.09%	122,948	0.10%	417	0.34%
Deferred tax assets-net	377,910	0.27%	278,008	0.22%	99,902	35.94%
Other non-current assets	2,987,211	2.14%	2,638,683	2.05%	348,528	13.21%
Total noncurrent assets	82,450,001	58.97%	82,290,178	63.78%	159,823	0.19%
Total Assets	139,819,189	100.00%	129,029,984	100.00%	10,789,206	8.36%
LIABILITIES						
Current Liabilities						
Accounts payable and accrued expenses	13,016,166	9.31%	13,788,692	10.69%	(772,526)	-5.60%
Income tax payable	930,909	0.67%	1,032,749	0.80%	(101,840)	-9.86%
Short-term loans payable	4,866,300	3.48%	5,562,500	4.31%	(696,200)	-12.52%
Current portion of long-term borrowing	49,999	0.04%	2,443,402	1.89%	(2,393,404)	-97.95%
Lease liabilities due within one year	725,846	0.52%	643,493	0.50%	82,353	12.80%
Due to relate parties	1,365,863	0.98%	849,772	0.66%	516,091	60.73%
Other current liabilities	434,901	0.31%	509,498	0.39%	(74,597)	-14.64%
	21,389,984	15.30%	24,830,106	19.24%	3,440,122)	-13.85%
Liabilities-held-for sale	1,834,651	1.31%	-	0.00%	1,834,651	100.00%
Total current liabilities	23,224,634	16.61%	24,830,106	19.24%	(1,605,472)	-6.47%
Noncurrent Liabilities						
Retirement benefit liability	508,533	0.36%	592,387	0.46%	(83,854)	-14.16%
Lease liabilities	23,496,626	16.81%	20,906,226	16.20%	2,590,400	12.39%
Deferred tax liabilities	548,200	0.39%	515,657	0.40%	32,543	6.31%
Long term loans payable - net of debt issue cost	6,572,209	4.70%	4,782,209	3.71%	1,790,000	37.43%
Other non-current liabilities	433,342	0.31%	421,929	0.33%	11,412	2.70%
Total noncurrent liabilities	31,558,911	22.57%	27,218,409	21.09%	4,340,502	15.95%
Total Liabilities	54,783,545	39.18%	52,048,515	40.34%	2,735,030	5.25%
EQUITY						
Capital stock	7,405,264	5.30%	7,405,264	5.74%		0.00%
Additional paid-in capital	9,634,644	6.89%	9,634,644	7.47%		0.00%
Retirement benefits reserve	114,048	0.08%	28,591	0.02%	85,457	298.90%
Other reserve	3,420	0.00%	5,013	0.00%	(1,592)	-31.76%
Treasury shares	(1,197,727)	-0.86%	(628,203)	-0.49%	(569,524)	90.66%
Retained earnings	42,216,430	30.19%	36,853,901	28.56%	5,362,529	14.55%
Total Equity Attributable to Equity Holders of Parent Company	58,176,080	41.61%	53,299,210	41.31%	4,876,871	9.15%
Non-controlling interest	26,859,564	19.21%	23,682,259	18.35%	3,177,305	13.42%
Total Equity	85,035,645	60.82%	76,981,469	59.66%	8,054,176	10.46%
Total Liabilities and Equity	139,819,189	100.00%	129,029,984	100.00%	10,789,206	8.36%

Current Assets

Cash and cash equivalents amounted to P16.78 Billion as at December 31, 2018 with an increase of P1.43 Billion or 9.33% from December 31, 2017 balance. The increase was due basically to the net effect of the net operating cash flows, collection of receivables and settlement of trade and non-trade payables principally from the Grocery Retail Segment and Parent Company, payment of 2017 cash dividends, settlement of loans and payments for capital expenditures during the period.

Receivables decreased by 16.10% from December 31, 2017 balance of P7.90 Billion to this year's balance of P6.63 Billion due mainly to the collections made and reclassification to assets held-for-sale.

Assets held-for-sale pertain to current and noncurrent assets of Liguigaz Philippine Corporation (LPC) which were reclassified in view of the sale of the group's equity interest in LPC) through a Share Purchase Agreement signed on October 19, 2018 between Canaria Holdings Corporation (CHC) and Fernwood Holdings, Inc. which was subsequently approved by the Philippine Competition Commission on January 17, 2019.

Financial assets at fair value through comprehensive income (FVOC) decreased by 11.31% from December 31, 2017 balance of P8.62 Million to this year's balance of P7.64 Million due mainly to the effect of changes in stock prices.

Financial assets at fair value through profit or loss (FVPL) decreased by 22.15% from December 31, 2017 balance of P46.89 Million to this year's balance of P36.50 Million due mainly to the effect of changes in stock market prices.

Inventories increased by 12.91% from 2017 balance of P21.19 Billion to this year's balance of P23.93 Billion due additional stocking requirement of existing and new operating stores, as well as the additional stocking requirements of the Liquor Distribution segment. Bulk of the inventory account pertains to the merchandise inventory stocks of the Grocery Retail Segment amounting to P19.73 Billion.

Prepaid expenses and other current assets increased by P450.16 Million or 20.85% at the end of December 2018, mainly due to prepayments made for advertising, prepayments for taxes and licenses, availment of new policies for insurance of new stores and advance payment of rent for soon to open stores by Grocery Retail and Liquor Distribution segments.

Due from related parties decreased by P26.38 Million at the end of December 2018, due primarily to settlements made.

Non-current Assets

As at December 31, 2018 and 2017, total non-current assets amounted to P82.45 Billion or 58.97% of total assets, and P82.29 Billion or 63.78% of total assets, respectively, for a increase of P159.82 Million or 0.19%.

Property and equipment-net pertains to the buildings and equipment mostly owned by the Grocery Retail segment. Book values of property and equipment decreased by P278.71 Million from P26.62 Billion in December 2017 to P26.34 Billion in December 2018 due principally to capital expenditures pertaining to new stores established by the Grocery Retail Segment and the effect of reclassifying the fixed assets owned by LPC to assets held-for-sale.

Right-of-use assets (ROU) represents the values recognized from long-term lease contracts covering land and buildings utilized by Grocery Retail, Real Estate, Liquor Distributions and Specialty Retail segments pursuant to the retrospective adoption of the new lease accounting standards under PFRS 16 which became effective January 1, 2019. . Book values of ROU increased by P1.92 Billion from P18.6 Billion in December 2017 to P20.08 Billion in December 2018 due principally to additional ROU assets recognized from new lease contracts entered into pertaining to new organic stores established in the current period net of depreciation recognized during the same year.

Investment properties-net pertains to the land, buildings and equipment owned by the Real Estate segment. Book values of investment properties increased by P83.01 Million from P10.75 Billion in December 2017 to P10.84 Billion in December 2018.

Investments decreased by P322.74 Million from P933.80 Million in December 2017 to P611.05 Million in December 2018 primarily due to the sale of investment in PG Lawson joint venture net of additional investments in Ayagold Retailers by the Grocery Retail segment and reclassification to assets held-for-sale by LPC.

Intangibles and goodwill-net decreased by P1.63 Billion from P22.77 Billion in December 2017 to P21.14 Billion in December 2018 primarily due to the reclassification of goodwill pertaining to LPC to assets held-for-sale.

Deferred tax assets increased by P99.90 Million or 35.94% from P278.01 Million in December 2017 to P377.91 Million in December 2018 resulting mainly from the recognition of deferred tax assets from the adoption of new lease accounting for leases.

Other non-current assets increased by P348.53 Million from P2.64 Billion in December 2017 to P2.99 Billion in December 2018. About 78% of these assets are attributable to the Grocery Retail Segment and the increase was primarily due to additional security deposits, advance payment to contractors and advance rentals in relation to new leases acquired for new stores development pipeline as well as the accrued rental income pertaining to future periods in accordance with the lease accounting standards under PAS 17.

Current Liabilities

As at December 31, 2018 and 2017, total current liabilities amounted to P23.22 Billion and P24.83 Billion respectively, for a decrease of P1.60 Billion or 6.47%.

About 86% of **accounts payable and accrued expenses** pertains to the trade payable to suppliers by the Grocery Retail Segment and the balance mostly to the contractors and suppliers of the Real Estate, Liquor Distribution and Specialty Retail segments. The decrease by P772.53 Million or 5.60% was primarily due to net settlement of trade and non-trade liabilities and payment of dividends by the Grocery Retail, Real Estate, Specialty and Parent Company in 2017.

Lease liabilities due within one year account increased by P82.35 Million from P643.49 Million in December 2017 to P725.85 Million in December 2018 due principally to the net effect of additional leases, interest expense amortization recognized and lease payments made during the current period pertaining current portions.

Significant portion of the **income tax payable** pertains to that of the Grocery Retail segment. The decrease by P101.84 Million from P1.03 Billion as at December 2017 to P930.91 Million as at December 31, 2018 is mainly due to settlement of income tax pertaining to 2017 and the reclassification by LPC to liabilities directly related to assets held-for-sale.

Liabilities directly related to assets held-for-sale pertain to current and noncurrent liabilities under LPC which were reclassified in view of the sale of the group's equity interest in LPC through a Share Purchase Agreement signed on October 19, 2018 between Canaria Holdings Corporation (CHC) and Fernwood Holdings, Inc. which was subsequently approved by the Philippine Competition Commission on January 17, 2019.

Short-term loans payable account decreased by P696.20 Million mainly due to settlements made by the Grocery Retail, Real Estate, Specialty Retail and Liquor Distribution segments.

Current portion of long-term borrowing decreased by P2.39 Billion mainly due to settlements made by the Grocery Retail segment and Parent Company and the effect of reclassification to long term loans resulting from refinancing.

Due to related parties increased by P516.09 Million mainly due to the additional advances.

Other current liabilities decreased by 14.64% from P509.50 Million as at December 31, 2017 to P434.90 Million as at December 31, 2018 relatively due to redemption of gift checks and perks points benefits by the Grocery Retail segment.

Noncurrent Liabilities

As at December 31, 2018 and December 31, 2017, total non-current liabilities amounted to P31.56 Billion and P27.22 Billion, respectively, for an increase of P4.34 Billion or 15.95%.

Long-term loans payable-net of current portion increased by P1.79 Billion mainly due to the Grocery Retail segment's refinancing of maturing long term loans.

Lease liabilities represents the values recognized from long-term lease contracts covering land and buildings utilized by Grocery Retail and Specialty Retail segments pursuant to the retrospective adoption of the new lease accounting standards under PFRS 16 which became effective January 1, 2019. . The account increased by P2.59 Billion from P20.91 Billion in December 2018 to P23.50 Billion in December 2019 due principally to the net effect of additional leases, interest expense amortization recognized and lease payments made during the current year.

Retirement benefit liability decreased by P83.85 Million mainly due to the net effect of recognition of additional benefit cost during 2018 and the reclassification to liabilities directly related to assets held-for-sale.

Other non-current liabilities increased by P11.41 million or 2.7% from P421.93 Million in December 2017 to P433.34 Million as at December 31, 2018 due to recognition of advance rental and deposits.

Equity

As at December 31, 2018 and December 31, 2017, total equity amounted to P85.03 Billion and P76.98 Billion, respectively, for an increase of P8.05 Billion or 10.46%.

Retirement benefits reserve pertain to adjustments made in compliance with the accounting standard covering employee benefits. As at December 2018, the account increased by P85.46 million due to unrealized gain on re-measurement of defined benefit liability.

Treasury shares increased by P569.52 million from P628.20 Million in December 2017 to P1.20 Billion as at December 31, 2018 due to additional buyback by the Parent Company during the year in relation to the buyback program.

Retained earnings increased by P5.36 Billion or 14.55% from P36.85 Billion in December 2017 to P42.22 Billion as at December 31, 2018 due to profit realized by the Group.

Non-controlling interest increased by P3.18 Billion or 13.42% from P23.68 Billion in December 2017 to P26.86 Billion as at December 31, 2018 mainly due to share in the consolidated profit.

Sources and Uses of Cash

A brief summary of cash flow movements is shown below:

<i>(In thousands)</i>	<u>For the years ended December 31</u>	
	2018	2017
Net cash flows from (used in) operating activities	P10,926,204	P8,774,641
Net cash flows used in investing activities	(5,853,974)	(4,503,325)
Net cash flows used in financing activities	(3,640,464)	(1,505,747)
Net increase in cash and cash equivalents	P1,431,763	P2,718,634

Net cash generated from operating activities during the current year is basically attributable to the cash generated from operations and effect of the net settlement of trade payable accounts by the Grocery Retail and Liquor Distribution Segment during the year, purchase of inventories for new stores stocking requirements and other related current operating items to support the segment's expansion.

On the other hand, net cash used in investing activities mainly pertains to the funds used for additional capital expenditures by the Grocery Retail segment's new stores expansion and additional assets acquisition and capital expenditures and short term investments by the Real Estate segment and Specialty Retail segment.

Net cash used in financing activities principally resulted from the net settlements of bank loans by the Grocery Retail, Specialty Retail segments and Parent Company during the year, repayment by the group of principal and interest relating to lease liability, payment of 2018 cash dividends declared and shares buyback program by the Grocery Retail segment and Parent Company.

Management believes that the current levels of internally generated funds from its operating activities and its present cash position enables the Group to meet its immediate future liquidity requirements under its current work program commitments as well as other strategic investment opportunities. With its strong current financial position, this can be augmented through availments from existing untapped banking and credit facilities as and when required.

Comparative Years 2017 and 2016

The table below shows the consolidated results of operations of the Group for the years ended December 31, 2017 and 2016.

<i>(In Thousands)</i>	2017	%	2,016	%	INCREASE (DECREASE)	%
REVENUES	145,638,800	100.00%	128,861,520	100.00%	16,777,280	13.02%
COST OF SALES/SERVICES	120,260,991	82.57%	106,108,685	82.34%	14,152,307	13.34%
GROSS PROFIT	25,377,809	17.43%	22,752,836	17.66%	2,624,974	11.54%
OTHER OPERATING INCOME	2,760,841	1.90%	2,524,484	1.96%	236,357	9.36%
GROSS OPERATING INCOME	28,138,650	19.32%	25,277,320	19.62%	2,861,330	11.32%
OPERATING EXPENSES	15,854,229	10.89%	14,007,353	10.87%	1,846,876	13.19%
INCOME FROM OPERATIONS	12,284,421	8.43%	11,269,967	8.75%	1,014,455	9.00%
OTHER INCOME (CHARGES) - net	(1,638,282)	-1.12%	(991,189)	-0.77%	(647,092)	65.28
INCOME BEFORE INCOME TAX	10,646,139	7.31%	10,278,777	7.98%	367,362	3.57%
INCOME TAX EXPENSE	3,175,439	2.18%	3,101,734	2.41%	73,705	2.38%
NET INCOME FOR THE YEAR	7,470,701	5.13%	7,177,043	5.57%	293,658	4.09%
Net Income Attributable to:						
Equity holders of the Parent Company	4,731,617	3.25%	4,605,339	3.57%	126,278	2.74%
Non-controlling interests	2,739,084	1.88%	2,571,704	2.00%	167,380	6.51%
	7,470,701	5.13%	7,177,043	5.57%	293,658	4.09%

Growth in Revenues

Cosco Capital, Inc. and subsidiaries (the "Group") posted a consolidated revenue of P145.64 Billion for the year ended December 31, 2017 which reflects an increase by P16.78 Billion or representing a growth of 13.16% compared to last year's revenue of P128.86 Billion.

The growth in consolidated revenues in 2017 was largely driven by a combination of the Group's sustained organic growth from its grocery retail segment; exceptional revenue growth from the LPG business unit driven by the gradual recovery of global petroleum and gas prices and on the back of a very strong growth in sales volume; revenue contributions from the real estate segment with its consistent high capacity utilization of its rental assets portfolio; and sustained growth in revenue contributions from the liquor and wine distribution business segment;

Growth in Net Income

During the same period, the Group realized a consolidated net income of P7.47 Billion which is higher by P293.66 Million representing a 4.09% increase as compared to last year's consolidated net income of P7.18 Billion. Net income attributable to equity holders of the parent company (PATMI) amounted to P4.73 Billion in 2017 which increased by about P126.28 Million or 2.74% as compared to the 2016 PATMI amounting to P4.49 Billion.

Segment Revenue & Net Income Contributions

Grocery Retail Segment

During the year 2017, the Group's grocery retail business segment registered a consolidated revenue contribution amounting to P124.49 Billion or an increase of P11.90 Billion or 10.6% growth as compared to the segment's revenue contribution of P112.59 Billion in 2016 brought about by its continued aggressive stores expansion program both organic and strategic acquisitions.

Consolidated net income contribution in 2017 amounted to P5.49 Billion which increased by P301.75 Million or 5.81% as compared to the net income contribution of P5.19 Billion in 2016.

Real Estate Segment

The commercial real estate business segment contributed P1.29 Billion to the Group's consolidated revenue in 2017 representing a decrease of about P177.41 Million or 12.08% as compared to last year amounting to P1.47 Billion principally brought about by the complete temporary closure of one of its recently acquired mall assets to give way for a major renovation and refurbishments and the net downward revenue effect resulting from effective shortening of lease contract term involving an outgoing and a new locator on its petroleum storage tanks facility in Subic Bay in accordance with the requirements of current lease accounting standards.

Net income contribution in 2017 amounted to about P947.59 Billion which correspondingly decreased by about P103.48 Million or 9.84% as compared to the net income contribution of P1.51 Billion in 2016.

Liquor Distribution Segment

Similarly, the liquor distribution business segment contributed about P4.69 Billion to the Group's consolidated revenue during the same period in 2017 representing an increase by about P350.17 Million or 8.06% higher as compared to the 2016 revenue contribution of P4.34 Billion on the back of its growth in volume of cases sold during the year mainly attributable to its aggressive sales and marketing campaign.

Net income contribution in 2017 amounted to about P698.55 Million which decreased by P53.03 Million or 7.06% as compared to the net income contribution in 2016 amounting to P751.58 Million on account of incremental marketing and promotion costs and expenses.

Specialty Retail

Liquigaz Philippines Corporation contributed about P13.3 Billion to the Group's consolidated revenue during the same period in 2017 representing an increase by about P4.20 Billion or 47.07% higher as compared to the 2016 revenue contribution of P8.92 Billion mainly attributable to the effects of the improvements and recovery of global petroleum and gas prices in 2017 and on the back of an exceptional growth in volume sold. Net income contribution in 2017 amounted to P469.20 Million or a substantial increase by P196.01 Million or 71.75% as compared to the net income contribution in 2016 amounting to P273.18 Million.

On the other hand, Office Warehouse, Inc. contributed about P1.82 Billion to the Group's consolidated revenue during the year 2017 representing an increase by about P289.17 Million or 18.88% higher as compared to the 2016 revenue contribution of P1.53 Million mainly attributable to its strong same store sales growth of 5.88% and its continuing stores network expansion program, enhanced product offerings and aggressive sales and marketing campaign. Net income contribution in 2017 amounted to about P55.57 Million which decreased by P4.28 Million or 7.16% as compared to the net income contribution in 2016 amounting to P59.86 Million, mainly due to additional expense recognized as a result of adopting the new lease accounting.

Segment Operating & Financial Highlights

Grocery Retail

Net Sales

For the year ended December 31, 2017, the Grocery Retail segment posted a consolidated net sales of P124,491 million for an increase of P11,902 million or a growth of 10.6% compared to P112,589 million in the same period of 2016. New stores put up in 2016 were fully operating in 2017 increasing consolidated net sales in addition to robust like for like stores sales growth and revenue contributions from new organic stores/outlets put up as well as acquisitions made during the same period. Like for like consolidated sales performance indicators of the group for the year ended December 31 are as follow:

	PGOLD	S&R
Net Sales	4.4%	6.5%
Net Ticket	3.9%	5.3%
Traffic	0.5%	1.2%

Gross Profit

For the year ended December 31, 2017, the Grocery Retail segment realized an increase of 11.4% in consolidated gross profit from P18,538 million in 2016 to P20,655 million in 2017 of the same period, driven by strong sales growth from new and old stores and consistent and continuing suppliers' support through additional trade discounts in the form of rebates and conditional discounts granted during the period. Consolidated gross profit margin remain stable at 16.6% and 16.5% for the years ended December 31, 2017 and 2016, respectively.

Other Operating Income

Other operating income increased by P247 million or 7.6% from P3,266 million in the year ended December 31, 2016 to P3,513 million in 2017 of the same period. This is attributable to increase in display allowance, rent income, membership income and other supplier supports driven mainly by new stores offering new spaces for product displays and booths for third party retailers and other promotions to increase customer and supplier's supports.

Operating Expenses

Operating expenses increased by P1,808 million or 13.2% from P13,707 million in the year ended December 31, 2016 to P15,516 million in 2017 of the same period. The increase was mainly attributable to the Grocery Retail segment's operating costs and expenses in establishing new organic stores and warehouses clubs including the operation of the QSR food service outlets such as manpower costs, as well as rent expenses relative to new lease contracts, supplies expense and business permits and taxes, all related to full year operation of acquired stores and operation of new organic stores.

Other Expense - net

Other expenses net of other income amounted to P268 million and P101 million for the years ended December 31, 2017 and 2016, respectively. The increase was due to interest expenses from additional bank loans availed during the period and recognition of share in net loss of joint venture operations.

Net Income

For the year ended December 31, 2017, the Grocery Retail segment earned a consolidated net income of P5,840 million at 4.7% net margin and an increase of 5.7% from P5,526 million at 4.9% net margin in 2016 of the same period. This was principally driven by the continuous expansion of the Grocery Retail segment both organic as well as strategic acquisitions and investments and combined management strategies and programs to boost revenue contributions from both the base stores as well as new stores complemented by sustained operating efficiencies and strategic costs controls on operating expenses at its current level.

Commercial Real Estate

The Group's Real Estate Segment posted P1.87 Billion in revenues for the year ended December 31, 2017 but registered a slight decrease of about 6.35% from P2.00 Billion revenues in 2016. The net decrease is mainly attributable to the temporary complete closure of one of its recently acquired mall assets which is undergoing reconstruction and refurbishments and the net downward revenue effect resulting from effective shortening of lease contract term involving an outgoing and a new locator on its petroleum storage tanks facility in Subic Bay in accordance with the requirements of current lease accounting standards.

Income from operations before depreciation decreased by P69.26 Million from P1.39 Billion of the year ended December 31, 2016.

Net income for the period amounted to P922.09 Million or 9.66% lower compared to last year's P1.02 Billion.

In December 2017, the group opened its latest community mall asset called Arvo Mall located in Marikina, Rizal which is its third joint development project with Ayala Land with Puregold as its anchor tenant. Also during the year, the group continued its ongoing development and construction pipeline of four (4) other community mall development assets located in Cavite, Muntinlupa, Subic and Las Pinas involving an additional GLA of 5,368 square meters which could be operational within the first half of 2018.

The group also acquired four (4) additional land assets located in Subic, Zambales; Antipolo, Rizal; Laoag, Ilocos Norte, and Maria Aurora, Aurora involving a total land area of 9,834 sq.m., thereby expanding its landbank portfolio to a total of nine (9) assets with a gross land area of 146,148.70 sq.m. It was also awarded as a winning bidder for a property located in Bayawan, Negros Oriental with an area of 12,052 sq. m. also for future development.

Liquor Distribution

Revenue from the Liquor Distribution Segment increased to P6.66 Billion in 2017 or 12.86% growth from last year's P5.90 Billion on the back of a sustained 19% growth in volume of cases sold during the year. Sales mix was still principally driven by its brandy portfolio which accounts for more than 60% of sales augmented by the increase in sales of the spirits sector. Wines and specialty beverages also experienced dramatic growths in the current period and contributed to the segment's overall sales growth.

Income from operations decreased to P823.82 Million in 2017 or 11.36% lower from last year's P929.40 Million due to incremental marketing and promotion expenses incurred to promote sales given its competitive environment.

Net income for the 2017 increased by P46.46 Million or 7.95% from P584.20 million in 2016 to P630.67 Million in 2017.

Specialty Retail

Office Warehouse

Office Warehouse operates a chain of specialty retail outlets engaged in selling school and office supplies, technology products, home/office furniture and equipment and related products. Since its acquisition in May 2014, the company embarked and successfully implemented a strategic organic expansion program through the establishment of additional new organic store outlets within its target market principally in Metro Manila coupled with a diversification of its product offerings. This expansion program has been funded from internally generated funds from its operating profits and cash flows.

As at December 31, 2017, the company had expanded its retail network to 82 stores from 47 stores at acquisition date. Net selling area also increased to 15,945 sq.m. or a growth by 13.78% in 2017 as compared to 2016.

Sales revenues increased to P1.82 Billion in 2017 or 18.92% higher as compared to the 2016 revenue contribution of P1.53 Billion mainly attributable to its continuing stores network expansion program, enhanced product offerings as well as aggressive sales and marketing campaign which also drove a strong SSSG of 5.88% in 2017.

Net income contribution in 2017 amounted to about 55.57 Million which decreased by P4.28 Million or 7.16% as compared to the net income contribution in 2016 amounting to P59.86 Million due to additional expense recognized as a result of adoption of new lease accounting.

Liquigaz

The company substantially completed its storage capacity facility expansion project in Sariyaya, Quezon (Southern Luzon) which involved the rehabilitation of an existing 5,100 MT capacity storage tanks for Phase 1 and development and the construction of a jetty and additional 12,000 MT storage tanks for Phase 2 development. When completed and fully operational, this facility will not only strategically serve the Southern Luzon market but also serve as a platform for its geographic expansion into the Visayas and Mindanao markets.

Revenues generated in 2017 amounted to P13.13 Billion or 47.07% higher as compared to the 2016 revenues of P8.93 Billion mainly attributable to the combined effects of the improvement in volume sold and of continued recovery of global petroleum and gas prices in 2017. Net income in 2017 amounted to P469.20 Million which increased by P196.01 Million or 71.75% as compared to that of 2016 amounting to P273.18 Million.

Consolidated Statements of Financial Position

Shown below are the comparative consolidated financial position of the Group:

<i>(In Thousands)</i>	2017	%	2016	%	INCREASE (DECREASE)	%
A S S E T S						
Current Assets						
Cash and cash equivalents	15,353,098	11.92%	12,634,464	10.59%	2,718,634	21.52%
Receivables - net	7,902,970	6.14%	6,791,716	5.69%	1,111,254	16.36%
Available-for-sale financial assets	8,618	0.01%	8,199	0.01%	419	5.11%
Short-term investments		0.00%	909,928	0.76%	(909,928)	-100.00%
Investment in trading securities	46,888	0.04%	35,109	0.03%	11,779	33.55%
Inventories	21,194,691	16.46%	19,792,366	16.59%	1,402,324	7.09%
Due from related parties	74,354	0.06%	185,136	0.16%	(110,782)	-59.84%
Prepayments and other current assets	2,159,188	1.68%	1,373,873	1.15%	785,315	57.16%
	46,739,806	36.30%	41,730,792	34.97%	5,009,014	12.00%
Noncurrent Assets						
Property and equipment - net	26,622,703	20.68%	24,090,074	20.19%	2,532,629	10.51%
Investment properties - net	10,753,607	8.35%	10,010,807	8.39%	742,800	7.42%
Right-f-use assets	18,164,367	14.11%	17,411,104	14.59%	753,263	4.33%
Intangible assets	22,776,064	17.69%	22,598,516	18.94%	177,548	0.79%
Investments	933,797	0.73%	926,669	0.78%	7,128	0.77%
Deferred oil and mineral exploration costs	122,948	0.10%	121,382	0.10%	1,566	1.29%
Deferred tax assets-net	7,577	0.01%	152,147	0.13%	(144,570)	-95.02%
Other non-current assets	2,638,683	2.05%	2,289,113	1.92%	349,570	15.27%
	82,019,747	63.70%	77,599,814	65.03%	4,419,934	5.70%
				100.00%		
TOTAL ASSETS	128,759,553	100.00%	119,330,605	%	9,428,948	7.90%
LIABILITIES AND EQUITY						
L I A B I L I T I E S						
Current Liabilities						
Accounts payable and accrued expenses	13,788,692	10.71%	11,772,673	9.87%	2,016,020	17.12%
Income tax payable	1,032,749	0.80%	1,102,118	0.92%	(69,369)	-6.29%
Short-term loans payable	5,562,500	4.32%	5,362,500	4.49%	200,000	3.73%
Lease liabilities due within one year	643,493	0.50%	858,806	0.72%	(215,313)	-25.07%
Current portion of long-term borrowing	2,443,402	1.90%	164,434	0.14%	2,278,969	-
Due to relate parties	849,772	0.66%	690,335	0.58%	159,437	100.00%
Other current liabilities	509,498	0.40%	542,543	0.45%	(33,045)	-6.09%
	24,830,106	19.28%	20,493,408	17.17%	4,336,698	21.16%
Noncurrent Liabilities						
Retirement benefit cost	592,387	0.46%	513,453	0.43%	78,934	15.37%
Deferred tax liabilities	181,128	0.14%	167,749	0.14%	13,379	7.98%
Long term loans payable - net of debt issue cost	4,782,209	3.71%	7,223,505	6.05%	(2,441,296)	-33.80%
Lease liabilities	20,906,226	16.24%	19,501,249	16.34%	1,404,978	7.20%
Deposits for future stock subscription		0.00%	150,313	0.13%	(150,313)	-100.00%
Other non-current liabilities	421,929	0.33%	362,454	0.30%	59,476	16.41%
	26,883,880	20.88%	27,918,722	23.40%	(1,034,842)	-3.71%
TOTAL LIABILITIES	51,713,986	40.16%	48,412,130	40.57%	3,301,856	6.82%
EQUITY						
Capital stock	7,405,264	5.75%	7,405,264	6.21%		0.00%
Additional paid-in capital	9,634,644	7.48%	9,634,644	8.07%		0.00%
Retirement benefits reserve	28,591	0.02%	692	0.00%	27,899	-
Other reserve	5,013	0.00%	4,593	0.00%	419	9.12%
Treasury shares	(628,203)	-0.49%	(523,865)	-0.44%	(104,338)	19.92%
Retained earnings	36,918,000	28.67%	33,102,392	27.74%	3,815,608	11.53%
Total Equity Attributable to Equity Holders of Parent Company	53,363,308	41.44%	49,623,720	41.59%	3,739,588	7.54%
Non-controlling interest	23,682,259	18.39%	21,294,755	17.85%	2,387,504	11.21%
TOTAL EQUITY	77,045,567	59.84%	70,918,475	59.43%	6,127,092	8.64%
				100.00%		
TOTAL LIABILITIES AND EQUITY	128,759,553	100.00%	119,330,605	%	9,428,948	7.90%

Current Assets

Cash and cash equivalents amounted to P15.35 Billion as at December 31, 2017 with an increase of P2.72 Billion or 21.52% from December 31, 2016 balance. The increase was due basically to the net effect of cash generated from operations and the settlement of trade and non-trade payables principally from the Grocery Retail Segment, payment of 2016 cash dividends, settlement of loans and payments for capital expenditures during the period.

Short-term investments decreased by P909.93 Million from December 31, 2016 balance due mainly to the transfer to cash and cash equivalents made by the Real Estate segment.

Receivables increased by 16.36% from December 31, 2016 balance of P6.79 Billion to this year's balance of P7.90 Billion due mainly to the increase in sales in 2017.

Available-for-sale financial assets increased by 5.11% from December 31, 2016 balance of P8.20 Million to this period's balance of P8.62 Million due mainly to the effect of changes in stock prices.

Investment in trading securities increased by 33.55% from December 31, 2015 balance of P35.11 Million to this period's balance of P46.89 Million due mainly to the effect of changes in stock market prices.

Inventories increased by 7.09% from 2016 balance of P19.79 Billion to this year's balance of P21.19 Billion due to the grocery retail segment's expansion and additional stocking requirement of the new organic stores established during the year as well as the additional stocking requirements of the segment preparatory to the 4th quarter incremental sales volume. Bulk of the inventory account pertains to the merchandise inventory stocks of the grocery retail segment amounting to P17.69 Billion.

Prepayments and other current assets increased by P785.31 Million at the end of December 2017, due to purchase of supplies for store and office use, input VAT on purchase of inventory and payment of various expenses, availment of new policies for insurance of new stores and advance payment of rent for soon to open stores by the Grocery Retail Segment.

Due from related parties decreased by P110.78 Million at the end of December 2017, due primarily to settlements made by the Real Estate segment.

Non-current Assets

As at December 31, 2017 and 2016, total non-current assets amounted to P82.01 Billion or 63.70% of total assets, and P77.60 Billion or 65.03% of total assets, respectively, for an increase of P4.42 Billion or 5.70%.

Property and equipment-net pertains to the buildings and equipment mostly owned by the Grocery Retail segment. Book values of property and equipment increased by P2.53 Billion from P24.09 Billion in December 2016 to P26.62 Billion in December 2017 due principally to capital expenditures pertaining to new stores established by the Grocery Retail Segment and capital expenditures from Specialty Retail segment.

Right-of-use assets (ROU) represents the values recognized from long-term lease contracts covering land and buildings utilized by Grocery Retail, Real Estate, Liquor Distributions and Specialty Retail segments pursuant to the retrospective adoption of the new lease accounting standards under PFRS 16 which became effective January 1, 2019. . Book values of ROU increased by P753.26 Million from P17.41 Billion in December 2016 to P18.16 Billion in December 2017 due principally to additional ROU assets recognized from new lease contracts entered into pertaining to new organic stores established in the current period net of depreciation recognized during the same year.

Investment properties-net pertains to the land, buildings and equipment owned by the Real Estate segment. Book values of investment properties increased by P742.80 Million or 7.42% from P10.01 Billion in December 2016 to P10.75 Billion in December 2017.

Investments increased by P7.13 Million from P926.67 Million in December 2016 to P933.80 Million in December 2017 resulting from the share in results of operations of joint venture and associates by the Grocery Retailing Segment, Specialty Retail Segment and Holding, Oil and Gas segment.

Deferred tax assets decreased by P144.57 Million from P152.15 Million in December 2016 to P7.57 Million in December 2017 resulting mainly from the reversal deferred tax assets.

Other non-current assets increased by P349.57 Million from P2.29 Billion in December 2016 to P2.64 Billion in December 2017. About 61% of these assets are attributable to the Grocery Retail Segment and the increase was primarily due to additional security deposits and advance rentals in relation to new leases acquired for new stores development as well as the accrued rental income pertaining to future periods in accordance with the lease accounting standards under PAS 17.

Current Liabilities

As at December 31, 2017 and 2016, total current liabilities amounted to P24.18 Billion and P19.64 Billion respectively, for an increase of P4.55 billion or 23.17%.

About 75% of **accounts payable and accrued expenses** pertains to the trade payable to suppliers by the Grocery Retail Segment and the balance mostly to the contractors and suppliers of the Real Estate, Liquor Distribution and Specialty Retail segments. The increase by P2.01 Billion or 17.11% was primarily due to increase in trade and non-trade liabilities and dividends payable by the Grocery Retail and Parent Company as at December 31, 2017.

Significant portion of the **income tax payable** pertains to that of the Grocery Retail segment. The decrease by P69.67 Million from P1.10 Billion as at December 2016 to P1.03 Billion as at December 2017 is mainly due to savings by the Liquor Distribution and Real Estate segments during the year 2017 in relation to the same period in 2016.

Lease liabilities due within one year account decreased by P215.31 Million from P858.81 Million in December 2016 to P643.49 Million in December 2017 due principally to the net effect of additional leases, interest expense amortization recognized and lease payments made during the current period pertaining current portions.

Short-term loans payable account decreased by P200 Million mainly due to net effect of additional loans availed during 2017 principally by the Specialty Retail and and Liquor Distribution segments to augment working capital requirements and repayment by the Grocery Retail segment.

Current portion of long term borrowing increased by P2.28 Billion due to reclassification made by the Grocery Retail Segment long term loans payable.

Due to related parties increased by P159.44 Million mainly due to the additional advances made by the Real Estate segment during 2017.

Other current liabilities decreased by 6.09% from P542.54 Million as at December 31, 2016 to P509.50 Million as at December 31, 2017.

Noncurrent Liabilities

As at December 31, 2017 and 2016, total non-current liabilities amounted to P26.88 Billion and P21.92 Billion, respectively, for a decrease of P1.03 Billion or 3.71%.

Retirement benefit cost increased by P78.93 Million or 15.37% mainly due to the additional retirement benefits recognized by Grocery Retail, Real Estate, Liquor Distribution and Specialty Retail segments.

Lease liabilities represents the values recognized from long-term lease contracts covering land and buildings utilized by Grocery Retail and Specialty Retail segments pursuant to the retrospective adoption of the new lease accounting standards under PFRS 16 which became effective January 1, 2019. . The account increased by P1.40 Billion from P19.50 Billion in December 2016 to P20.91 Billion in December 2017 due principally to the net effect of additional leases, interest expense amortization recognized and lease payments made during the current year.

The movement of **Long term loans payable - net of debt issue cost** amounting to P2.44 Billion pertains to the reclassification of long term loans to short term loans by the Grocery Retail segment.

Other non-current liabilities increased by P59.47 million or 16.41% from P362.45 Million in December 2016 to P421.93 Million in December 2017 due to recognition of advance rental and deposits.

Deposits for future stock subscription decreased by P150.31 million due to conversion to equity by the Specialty Retail segment.

Equity

As at December 31, 2017 and December 31, 2016, total equity amounted to P77.04 Billion and P70.92 Billion, respectively, for an increase of P6.13 Billion or 8.64%.

Retirement benefits reserve pertain to adjustments made in compliance with the accounting standard covering employee benefits. As at December 2017, the account increased by P27.90 million due to unrealized gain on re-measurement of defined benefit liability.

Treasury shares increased by P104.34 million from P523.86 Million in December 2016 to P628.20 Million as at December 31, 2017 due to additional buyback by the Parent Company during the year in relation to its existing buyback program.

Retained earnings increased by P3.82 Billion or 11.53% from P33.10 Billion in December 2016 to P36.92 Billion as at December 31, 2019 due to profit realized by the Group, net of cash dividend declaration.

Non-controlling interest increased by P2.38 Billion or 11.21% from P21.29 Billion in December 2016 to P23.68 Billion as at December 31, 2017 mainly due to share in the consolidated profit.

Sources and Uses of Cash

A brief summary of cash flow movements is shown below:

	<u>For the years ended December 31</u>	
	2017	2016
Net cash flows from (used in) operating activities	P8,727,706	P6,077,795
Net cash flows from (used in) investing activities	(4,503,325)	(5,539,307)
Net cash flows from financing activities	(1,505,747)	(2,445,489)
Net increase in cash and cash equivalents	P2,718,634	(1,907,001)

Net cash generated from operating activities during the current year is basically attributable to the cash generated from operations and effect of the net settlement of trade payable accounts by the Grocery Retail and Liquor Distribution Segment during the year, purchase of inventories for new stores stocking requirements and other related current operating items to support the segment's expansion.

On the other hand, net cash used in investing activities mainly pertains to the funds used for additional capital expenditures by the Grocery Retail segment's new stores expansion and additional assets acquisition and capital expenditures and short term investments by the Real Estate segment and Specialty Retail segment.

Net cash used in financing activities principally resulted from the net settlements of bank loans by the Grocery Retail, Specialty Retail segments and Parent Company during the year, repayment by the group of principal and interest relating to lease liability, payment of 2016 cash dividends declared and shares buyback program by the Grocery Retail segment and Parent Company.

Management believes that the current levels of internally generated funds from its operating activities and its present cash position enables the Group to meet its immediate future liquidity requirements under its current work program commitments as well as other strategic investment opportunities. With its strong current financial position, this can be augmented through availments from existing untapped banking and credit facilities as and when required.

Material Events and Uncertainties

Below is the discussion and analysis of material events and uncertainties known to management that would address the past and would have an impact on future operations:

- (i) Seasonal aspects that had a material effect on the financial condition or results of the Group's operations includes retail and liquor business which sales tend to peak during the gift-giving Christmas season;
- (ii) There are no changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years;
- (iii) There are no material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period;
- (iv) There are no contingent liabilities or assets since the last statement of financial position period;
- (v) Sources of liquidity – Funding will be sourced from internally generated cash flow, cash recently received from the sale of shares to the equity market and from debt market;
- (vi) There are no events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation;
- (vii) There are no material commitments for capital expenditures other than those performed in the ordinary course of trade or business;
- (viii) There are no known trends, events or uncertainties that have had or that are reasonably expected to have a material impact on the revenues or income from continuing operations;
- (ix) There are no significant elements of income not arising from continuing operations;
- (x) Due to the Group's sound financial condition, there are no foreseeable trends or events that may have material impact on its short-term or long-term liquidity.

COSCO CAPITAL, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2019, 2018 and 2017

With Independent Auditors' Report



STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of COSCO CAPITAL, INC. AND SUBSIDIARIES (the "Group"),- is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2019 and 2018, 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 Group's ability to continue as a going concern and using the going concern basis of accounting unless management intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

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

R.G. Manabat and Co., the independent auditor appointed by the stockholders, has audited the financial statements of the Group in accordance with Philippine Standards on Auditing, and its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

Signature [Handwritten Signature]
LUCIO L. CO/Chairman of the Board

Signature [Handwritten Signature]
LEONARDO B. DAYAO/ President

Signature [Handwritten Signature]
TEODORO A. POLINGA/ Chief Finance Officer

SUBSCRIBED AND SWORN to before me this ___ day of ___ 2020 affiants exhibiting to me their respective Tax Identification Number, as follows:

Table with 2 columns: Name, TIN. Rows: LUCIO L. CO (108-975-971), LEONARDO B. DAYAO (135-546-815), TEODORO A. POLINGA (104-883-077)

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Page No. 103;
Book No. XVII;
Series of 2020

Signed this ___ day of JUN 08 2020, 2020

[Handwritten Signature]
EMMA RHEA E. SADURAL-CAPISTRANO
Notary Public for the City of Manila
Commission No. 2019-100 until December 31, 2020
Roll No. 55724
IBP Lifetime Member No. 07476
PTR No. 9123815 / 01-03-2020 / Mia
MCLE No. VI-0022489 / 04-16-19
No. 900 Romualdez St., Paco, Manila



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REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Cosco Capital, Inc. and Subsidiaries
900 Romualdez Street
Paco, Manila

Opinion

We have audited the consolidated financial statements of Cosco Capital, Inc. and its Subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2019, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2019, in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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



Key Audit Matters

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

Valuation of Goodwill and Other Intangibles with Indefinite Lives (P20.9 billion)
Refer to Note 13 to the consolidated financial statements.

The risk

The Group acquired through business combinations goodwill and other intangibles with indefinite lives totaling P20.9 billion. The Group tests for impairment annually by comparing the recoverable amounts to the carrying amounts.

We considered this as a key audit matter because assessment process is complex, involves significant management judgements and is based on key assumptions on expected future market and economic conditions, revenue growth, margin developments, the discount rates and (terminal) growth rates from management.

Our response

We performed the following audit procedures, among others, around impairment testing of goodwill and other intangibles with indefinite lives:

- We obtained the Group's discounted cash flow model that tests the carrying value of goodwill.
- We evaluated the reasonableness of key assumptions used by management in deriving the recoverable amount. These procedures included using our own internal valuation specialist to evaluate the key inputs and assumptions for growth and discount rates.
- We reviewed the cash flows used, with comparison to recent performance, trend analysis and market expectations, and by reference to prior year's forecast, where relevant, and assessing whether the Group has achieved them.
- We evaluated the adequacy of the disclosures in respect of impairment of goodwill and other intangibles with indefinite lives in the consolidated financial statements.

Revenue Recognition (P169.2 billion)
Refer to Note 3 and 19 to the consolidated financial statements.

The risk

Revenue is not complex but it is an important measure to evaluate the Group's performance, which increases the risk of material misstatement that revenue may be inappropriately recognized.



Our response

We performed the following audit procedures, among others, on revenue recognition:

- We evaluated and assessed the revenue recognition policies of the Group in accordance with PFRS 15, *Revenue from Contracts with Customers* and PFRS 16, *Leases*.
- We evaluated and assessed the design and operating effectiveness of the key controls over the revenue process.
- We involved our information technology specialists to assist in the audit of automated controls, including interface controls among different information technology applications for the evaluation of the design and operating effectiveness of controls over the recording of revenue transactions.
- For retail, specialty retail and liquor distribution segments, we tested, on a sample basis, sales transactions for a selected period before and after year-end to supporting documentation such as generated sales summary reports from the point-of-sale (POS) system, as reconciled with the cash receipts, to assess whether these transactions are recorded in the correct reporting period. For real estate and property leasing segment, we reviewed the completeness and accuracy of the master list of tenants and, on a sampling basis, we inspected and reviewed new and/or amended lease contracts to ascertain the existence of these lease contracts as well as the completeness and accuracy of the lease terms.
- We vouched, on a sample basis, sales transactions to supporting documentation such as sales invoices, delivery documents and value-added-tax returns, as applicable, to ascertain that the revenue recognition criteria are met.
- We tested, on a sampling basis, journal entries posted to revenue accounts to identify unusual or irregular items.

Adoption of PFRS, 16, Leases

Refer to Note 3, 21 and 35 to the consolidated financial statements.

The risk

The Group recognized right-of-use assets and lease liabilities as part of its first-year adoption of PFRS 16, *Leases*, which became effective for annual reporting periods beginning on or after January 1, 2019. The Group applied the full retrospective approach. The application of this new standard as disclosed in Note 35 resulted in an increase in total consolidated assets of P19.2 billion, an increase in total consolidated liabilities of P20.9 billion and a corresponding adjustment to total consolidated equity of P1.7 billion as at the date of initial application. We considered this to be a key audit matter because of the magnitude of the amounts involved, and the significance of management's judgment required in making estimates such as the determination of discount rates (incremental borrowing rates) and lease terms.



Our response

We performed the following audit procedures, among others, on the adoption of PFRS 16:

- We tested the completeness and accuracy of contractual lease agreements included in the lease contract database and the calculation used in recognizing the impact of PFRS 16.
- We evaluated whether the accounting policies applied are in accordance with the requirements of PFRS 16.
- We agreed key inputs to supporting documentation such as lease agreements on a sample basis. Also, we tested on a sample basis the movements during the year.
- We also recalculated the right-of-use asset and lease liability for each material type lease contract. We evaluated management assumptions, specifically on the determination of discount rates and assessment of renewal options. In evaluating the discount rates used, we reviewed observable data from reliable source with respect to reference rates used and tested whether entity- and lease-specific adjustments were appropriately made. We confirmed the existence of underlying facts and circumstances that create economic incentives as basis on whether there is reasonable certainty to exercise renewal options or not to exercise termination options.
- We evaluated the adequacy of the disclosures in the consolidated financial statements based on the requirements of PFRS 16.

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, 2019, but does not include the consolidated financial statements and our auditors' report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019 are expected to be made available to us after the date of this auditors' report.

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

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

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

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



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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



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

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

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

The engagement partner on the audit resulting in this independent auditors' report is Dindo Marco M. Dioso.

R.G. MANABAT & CO.

DINDO MARCO M. DIOSO

Partner

CPA License No. 0095177

SEC Accreditation No. 1387-AR-1, Group A, valid to audit 2019 AFS
per SEC MC 20, s2019

Tax Identification No. 912-365-765

BIR Accreditation No. 08-001987-030-2019

Issued August 7, 2019; valid until August 6, 2022

PTR No. MKT 8116763

Issued January 2, 2020 at Makati City

June 25, 2020

Makati City, Metro Manila



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**REPORT OF INDEPENDENT AUDITORS
TO ACCOMPANY SUPPLEMENTARY INFORMATION FOR FILING
WITH THE SECURITIES AND EXCHANGE COMMISSION**

The Board of Directors and Stockholders
Cosco Capital, Inc. and Subsidiaries
900 Romualdez Street
Paco, Manila

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Cosco Capital, Inc. and Subsidiaries (the "Group") as at and for the years ended December 31, 2019 and 2018 and have issued our report thereon dated June 25, 2020.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The Supplementary Schedule of Financial Soundness Indicators, including their definitions, formulas and calculations, is the responsibility of the Group's management. These financial soundness indicators are not measure of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies.

This schedule is presented for the purpose of complying with the Revised Securities Regulation Code (SRC) Rule 68 issued by the Securities and Exchange Commission and is not a required part of the consolidated financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Group's consolidated financial statements as at and for the years ended December 31, 2019 and 2018 and no material exceptions were noted (see Annex A).

R.G. MANABAT & CO.

DINDO MARCO M. DIOSO
Partner
CPA License No. 0095177
SEC Accreditation No. 1387-AR-1, Group A, valid to audit 2019 AFS
per SEC MC 20, s2019
Tax Identification No. 912-365-765
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Issued January 2, 2020 at Makati City

June 25, 2020
Makati City, Metro Manila

COSCO CAPITAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Amounts in Thousands)

December 31				
		2019	2018 (As restated - Note 35)	2017 (As restated - Note 35)
	Note			
ASSETS				
Current Assets				
Cash and cash equivalents	4	P24,402,014	P16,784,861	P15,353,098
Receivables - net	5	16,637,892	6,630,927	7,902,970
Inventories	6, 20	24,722,271	23,931,657	21,194,691
Financial assets at fair value through profit or loss	7	34,921	36,503	46,888
Financial assets at fair value through other comprehensive income	8	9,209	7,643	8,618
Due from related parties	25	192,068	47,971	74,354
Prepaid expenses and other current assets	9, 35	2,000,500	2,608,730	2,159,194
		67,998,875	50,048,292	46,739,813
Assets of disposal group classified as held for sale	33	-	7,320,895	-
Total Current Assets		67,998,875	57,369,187	46,739,813
Noncurrent Assets				
Investments in associates and joint ventures	10	741,175	603,175	933,797
Right of use of assets - net	21	21,700,103	20,082,426	18,164,361
Property and equipment - net	11	27,927,953	26,343,793	26,622,702
Investment properties - net	12	11,125,998	10,836,618	10,753,607
Goodwill and other intangibles - net	13	21,089,717	21,095,502	22,776,064
Deferred oil and mineral exploration costs - net	14	-	123,365	122,947
Deferred tax assets - net	27	566,284	96,263	7,577
Other noncurrent assets	15, 23, 35	3,299,789	2,987,212	2,644,555
Total Noncurrent Assets		86,451,019	82,168,354	82,025,610
		P154,449,894	P139,537,541	P128,765,423
LIABILITIES AND EQUITY				
Current Liabilities				
Accounts payable and accrued expenses	16	P15,127,981	P13,016,166	P13,788,692
Income tax payable		1,164,727	930,909	1,032,749
Lease liabilities due within one year	21, 25	567,682	725,846	643,493
Short-term loans	17	871,124	4,866,300	5,562,500
Current maturities of long-term loans due within one year	17	43,685	49,999	2,443,402
Due to related parties	25	1,343,460	1,365,863	849,772
Other current liabilities	18	596,992	434,901	509,498
		19,715,651	21,389,984	24,830,106
Liabilities of disposal group classified as held for sale	33	-	1,834,651	-
Total Current Liabilities		19,715,651	23,224,635	24,830,106

Forward

December 31				
			2018	2017
	Note	2019	(As restated - Note 35)	(As restated - Note 35)
Noncurrent Liabilities				
Long-term loans	17	P5,094,577	P6,572,209	P4,782,209
Lease liabilities	21, 25	26,101,259	23,496,627	20,906,227
Deferred tax liabilities - net	27	128,586	177,626	181,128
Retirement benefits liability	26	955,818	508,533	592,387
Other noncurrent liabilities	21	393,219	433,342	421,929
Total Noncurrent Liabilities		32,673,459	31,188,337	26,883,880
Total Liabilities		52,389,110	54,412,972	51,713,986
Equity				
Capital stock	28	7,405,264	7,405,264	7,405,264
Additional paid-in capital	28	9,634,644	9,634,644	9,634,644
Treasury stock	28	(1,403,974)	(1,197,727)	(628,203)
Retirement benefits reserve	26	5,412	113,822	28,365
Other reserve	8	5,602	3,420	5,012
Retained earnings		54,167,212	42,775,502	37,394,017
Total Equity Attributable to Equity Holders of the Parent Company		69,814,160	58,734,925	53,839,099
Noncontrolling Interests		32,246,624	26,389,644	23,212,338
Total Equity		102,060,784	85,124,569	77,051,437
		P154,449,894	P139,537,541	P128,765,423

See Notes to the Consolidated Financial Statements.

COSCO CAPITAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Amounts in Thousands except Per Share Data)

		Years Ended December 31		
	Note	2019	2018 (As restated - Note 35)	2017 (As restated - Note 35)
REVENUES				
Net sales	19, 29	P164,568,286	P166,830,469	P144,347,072
Rent		1,498,426	1,379,888	1,291,200
Other		-	-	528
		166,066,712	168,210,357	145,638,800
COST OF REVENUES				
Cost of goods sold	20, 35	135,516,879	139,182,012	119,689,636
Cost of rent		660,788	627,607	571,355
		136,177,667	139,809,619	120,260,991
GROSS INCOME		29,889,045	28,400,738	25,377,809
OTHER REVENUE	22	3,262,853	2,994,765	2,760,840
TOTAL GROSS INCOME AND OTHER REVENUE		33,151,898	31,395,503	28,138,649
OPERATING EXPENSES	23, 35	19,147,089	18,326,809	15,854,229
INCOME FROM OPERATIONS		14,004,809	13,068,694	12,284,420
OTHER INCOME (CHARGES)				
Interest expense	17, 21	(2,076,648)	(1,922,956)	(1,699,097)
Interest income	4, 25	837,882	200,434	133,141
Others - net	24	6,148,629	421,494	(72,325)
		4,909,863	(1,301,028)	(1,638,281)
INCOME BEFORE INCOME TAX		18,914,672	11,767,666	10,646,139
PROVISION FOR INCOME TAXES	27	3,521,465	3,285,862	3,175,439
NET INCOME		P15,393,207	P8,481,804	P7,470,700
Net income attributable to:				
Equity holders of the Parent Company		P11,597,381	P5,381,485	P4,731,616
Noncontrolling interests		3,795,826	3,100,319	2,739,084
		P15,393,207	P8,481,804	P7,470,700
Basic/diluted earnings per share attributable to equity holders of the Parent Company	30	P1.65	P0.76	P0.66

See Notes to the Consolidated Financial Statements.

COSCO CAPITAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands except Per Share Data)

	Note	Years Ended December 31		
		2019	2018 (As restated, Note 35)	2017 (As restated, Note 35)
NET INCOME		P15,393,207	P8,481,804	P7,470,700
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will never be reclassified subsequently to profit or loss				
Remeasurement gain (loss) on retirement benefits		(316,310)	231,525	78,022
Unrealized gain (loss) on financial assets	8	2,182	(1,592)	419
Income tax effect		96,421	(69,081)	(23,277)
		(217,707)	160,852	55,164
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		P15,175,500	P8,642,656	P7,525,864
Total comprehensive income attributable to:				
Equity holders of the Parent Company		P11,419,798	P5,465,351	P4,759,935
Non-controlling interests		3,755,702	3,177,305	2,765,929
		P15,175,500	P8,642,656	P7,525,864

See Notes to the Consolidated Financial Statements.

COSCO CAPITAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Amounts in Thousands Except per Share Data)

	Attributable to Equity Holders of the Parent Company						Total	Non-controlling Interests	Total Equity
	Capital Stock	Additional Paid-in Capital	Treasury Shares	Retirement Benefits Reserve	Other Reserve	Retained Earnings			
Balance at January 1, 2017, as previously stated	P7,405,264	P9,634,644	(P523,865)	P692	P4,593	P33,808,585	P50,329,893	P21,458,344	P71,788,237
Effect of adoption of PFRS 16	-	-	-	-	-	(560,336)	(560,336)	(470,146)	(1,030,482)
Balance at January 1, 2017, as restated	7,405,264	9,634,644	(523,865)	692	4,593	33,248,229	49,769,557	20,988,198	70,757,755
Restated total comprehensive income for the year									
Net income for the year	-	-	-	-	-	4,731,616	4,731,618	2,739,084	7,470,700
Other comprehensive income	-	-	-	27,673	419	-	28,092	27,072	55,164
	-	-	-	27,673	419	4,731,616	4,759,708	2,766,156	7,525,864
Effect of business combination	-	-	-	-	-	150,313	150,313	-	150,313
Acquisition of treasury shares	-	-	(104,338)	-	-	-	(104,338)	-	(104,338)
Cash dividends at P0.10 per share	-	-	-	-	-	(738,141)	(736,141)	(542,018)	(1,278,157)
Balance at December 31, 2017, as restated	7,405,264	9,634,644	(628,203)	28,365	5,012	37,394,017	53,839,099	23,212,338	77,051,437
Restated total comprehensive income for the year									
Net income for the year	-	-	-	-	-	5,381,485	5,381,485	3,100,319	8,481,804
Other comprehensive income (loss)	-	-	-	85,457	(1,592)	-	83,865	76,987	160,852
	-	-	-	85,457	(1,592)	5,381,485	5,465,350	3,177,306	8,642,656
Acquisition of treasury shares	-	-	(569,524)	-	-	-	(569,524)	-	(569,524)
Balance at December 31, 2018, as restated	7,405,264	9,634,644	(1,197,727)	113,822	3,420	42,775,502	58,734,925	26,389,644	85,124,569
Total comprehensive income for the year									
Net income for the year	-	-	-	-	-	11,597,381	11,597,381	3,795,826	15,393,207
Other comprehensive income (loss)	-	-	-	(108,410)	2,182	-	(106,228)	(111,479)	(217,707)
	-	-	-	(108,410)	2,182	11,597,381	11,491,153	3,684,347	15,175,500
Issuance of shares by a subsidiary									
Gain on dilution of ownership interest	-	-	-	-	-	1,313,808	1,313,808	-	1,313,808
Increase in noncontrolling interests	-	-	-	-	-	-	-	3,321,772	3,321,772
	-	-	-	-	-	1,313,808	1,313,808	3,321,772	4,635,580
Acquisition of treasury shares	-	-	(206,247)	-	-	-	(206,247)	-	(206,247)
Cash dividends at P0.12 per share	-	-	-	-	-	(1,519,479)	(1,519,479)	(1,149,139)	(2,668,618)
Balance at December 31, 2019	P7,405,264	P9,634,644	(P1,403,974)	P5,412	P5,602	P54,167,212	P69,814,160	P32,246,624	P102,060,784

See Notes to the Consolidated Financial Statements.

COSCO CAPITAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

Years Ended December 31				
		2019	2018 (As restated, Note 35)	2017 (As restated, Note 35)
	<i>Note</i>			
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		P18,914,672	P11,767,666	P10,646,139
Adjustments for:				
Gain on sale of subsidiary/joint venture	10, 33	(6,073,605)	(362,810)	-
Depreciation and amortization	11, 12, 13	3,423,159	3,537,746	3,108,350
Interest expense	17, 21	2,076,648	1,922,956	1,699,098
Interest income	4, 25	(837,882)	(200,434)	(133,433)
Impairment loss on deferred oil and mineral exploration costs	14, 23	128,090	-	-
Retirement benefits cost	26	136,099	171,120	159,361
Share in losses (income) of joint ventures and associates	10, 24	(11,044)	(17,142)	132,872
Gain from pre-terminated lease contracts	21, 24	(42,460)	(37,850)	(15,174)
Unrealized foreign exchange loss (gain)		(28,805)	(24,200)	23,468
Gain on insurance claims	24	(3,503)	(3,383)	(14,268)
Unrealized loss (gain) on financial assets at FVPL	7, 24	1,582	10,385	(11,779)
Dividend income	25	(652)	(680)	(1,856)
Gain on disposal of property and equipment	11, 24	-	(15,815)	(206)
Operating income before changes in working capital		17,682,299	16,747,559	15,592,572
Decrease (increase) in:				
Receivables		1,891,943	281,137	(1,097,265)
Inventories		(790,614)	(3,264,295)	(1,402,325)
Prepaid expenses and other current assets		608,230	(297,664)	(1,290,612)
Due from related parties		(144,097)	(23,398)	110,782
Increase (decrease) in:				
Accounts payable and accrued expenses		1,362,540	2,077,246	2,170,922
Due to related parties		(22,403)	578,828	159,437
Other current liabilities		162,091	(70,506)	(33,045)
Other noncurrent liabilities		(40,123)	(705,043)	(647,869)
Cash generated from operations		20,709,866	15,323,864	13,562,597
Income taxes paid	27	(3,566,714)	(3,137,784)	(2,767,602)
Retirement benefits paid	26	(4,085)	(1,675)	(1,876)
Net cash provided by operating activities		17,139,067	12,184,405	10,793,119

Forward

Years Ended December 31				
			2018	2017
	<i>Note</i>	2019	(As restated - Note 35)	(As restated - Note 35)
CASH FLOWS FROM INVESTING ACTIVITIES				
Loans receivable granted during the year	25	(P11,898,908)	P-	P-
Additions to:				
Property and equipment	11	(3,885,582)	(4,073,824)	(4,614,237)
Investment properties	12	(617,518)	(657,388)	(680,526)
Deferred mineral and oil exploration intangibles	13	(4,725)	(417)	(1,567)
Investments	10	(126,956)	(32,500)	(140,000)
Proceeds from:				
Sale of interest in a subsidiary/joint venture	33	11,370,980	600,000	-
Maturity of short-term investments		-	-	909,929
Insurance claims	24	3,503	3,383	14,268
Disposal of property and equipment		129,910	72,392	9,195
Effect of business combination		-	-	(270,000)
Interest received		837,882	200,434	133,433
Increase in other noncurrent assets		(312,577)	(267,306)	314,001
Dividends received	25	652	676	1,856
Cash given up in assets held for sale	33	-	(1,063,131)	-
Net cash used in investing activities		(4,544,140)	(5,259,386)	(4,353,997)
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayments of lease:				
Principal amount		(567,555)	(528,829)	(403,540)
Interest expense		(1,673,636)	(1,454,112)	(1,292,684)
Payments of:				
Short-term loans	17	(4,638,031)	(10,916,200)	(6,549,500)
Long-term loans	17	(1,488,429)	(610,000)	(170,001)
Payments of:				
Cash dividends		(1,312,587)	(1,200,393)	(1,431,408)
Interest expense		(398,529)	(458,398)	(495,049)
Availment of short-term loans	17	642,855	10,220,000	6,749,500
Proceeds from top-up placements	1	4,635,580	-	-
Buyback of capital stocks	28	(206,247)	(569,524)	(104,338)
Net cash used in by financing activities		(5,006,579)	(5,517,456)	(3,697,020)
EFFECT OF EXCHANGE RATE CHANGES ON CASH				
		28,805	24,200	(23,468)
NET INCREASE IN CASH AND CASH EQUIVALENTS				
		7,617,153	1,431,763	2,718,634
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR				
		16,784,861	15,353,098	12,634,464
CASH AND CASH EQUIVALENTS AT END OF YEAR				
	4	P24,402,014	P16,784,861	P15,353,098

See Notes to the Consolidated Financial Statements.

COSCO CAPITAL, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Reporting Entity

Cosco Capital, Inc. (the Parent Company or Cosco), formerly Alcorn Gold Resources Corporation, was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on January 19, 1988. Its shares of stock are publicly traded in the Philippine Stock Exchange (PSE) since September 26, 1988. As at December 31, 2019 and 2018, the Parent Company's public float stood at 23.74% and 24.69%.

On October 8, 1999, the Parent Company's shareholders approved the amendment of its primary purpose from an oil and mineral exploration and development corporation into a holding company so that it may pursue other businesses as opportunity comes. The original primary purpose is now included as one of the secondary purposes of the Parent Company. On January 13, 2000, the SEC approved the amendments of the Parent Company's Articles of Incorporation. As a holding company, Cosco may engage in any business that may add to its shareholders' worth.

On December 10, 2012, in a special meeting, the Board of Directors ("Board" or "BOD") of the Parent Company approved the subscription of the "Lucio L. Co Group" to the unissued authorized capital stock of the Parent Company from the proposed increase in the authorized capital stock of the Parent Company at a subscription price of P15 per share for a total of 4,987,560,379 new shares at an aggregate subscription price of P74.8 billion worth of shares in Puregold Price Club, Inc. (PPCI), Ellimac Prime Holdings, Inc., Go Fay & Co., Incorporada, SVF Corporation, Nation Realty, Inc., Patagonia Holdings Corp., Fertuna Holdings Corp., Premier Wine and Spirits, Inc., Montosco, Inc., Meritus Prime Distributions, Inc., and Pure Petroleum Corp., and the corresponding payment thereof by way of assignment of the shares owned by the Lucio L. Co Group in these companies, under the terms and conditions to be determined by the Parent Company's BOD.

On December 11, 2012, in a special meeting, the Parent Company's shareholders approved the increase in the Parent Company's authorized capital stock and increase in par value from P3 billion divided into 300 billion common shares with a par value of P0.01 per share to P10 billion divided into 10 billion common shares with a par value of P1 per share. Also, the Parent Company's shareholders resolved to change the Parent Company's corporate name from Alcorn Gold Resources Corporation to Cosco Capital, Inc. and to reorganize and spin-off its oil and mineral assets and operations into a wholly-owned subsidiary.

On April 22, 2013, the SEC approved the restructuring of the Parent Company's authorized capital stock as well as the change of its corporate name. Further, the SEC confirmed the final number of subscribed shares of 4,987,406,421 at an aggregate revised subscription price of P74.8 billion which will be paid through assignment of shares (share swap). The transaction is exempt from the registration requirements of the Securities Regulation Code of the Philippines.

On May 31, 2013, pursuant to the SEC-approved increase of capital stock and share swap transaction, the Parent Company implemented the following: (a) issuance and listing of 4,987,406,421 new shares of the Parent Company; (b) cross trade at the PSE of PPCI shares to the Parent Company as consideration for the issuance of the new shares; (c) issuance to the subscribers, the Lucio L. Co Group, pursuant to the share swap; and (d) special block sale at the PSE of 1,600,000,000 of the new shares placed to Qualified Institutional Buyers transacted at PSE at P10.50 per share.

As a result of the above transaction, the companies mentioned above became subsidiaries of Cosco. The transaction was accounted for using the pooling of interests method. Accordingly, the Parent Company recognized the net assets of the acquired subsidiaries equivalent to their carrying values.

The Parent Company's principal office, which is also its registered office address, is at 900 Romualdez Street, Paco, Manila.

The consolidated financial statements include the accounts of the Parent Company and the following subsidiaries (collectively referred to as "the Group") which are all incorporated in the Philippines:

	Effective Percentage of Ownership			
	2019		2018	
	Direct	Indirect	Direct	Indirect
Retail				
Puregold Price Club, Inc. (PPCI) ^(a) and Subsidiaries	49.16 ^(e)	-	51.02 ^(e)	-
▪ Kareila Management Corporation (KMC) and Subsidiaries	-	49.16 ^(e)	-	51.02
□ S&R Pizza (Harbor Point), Inc.	-	49.16 ^(e)	-	51.02
□ S&R Pizza, Inc.	-	49.16 ^(e)	-	51.02
▪ PPCI Subic, Inc. (PSI)	-	49.16 ^(e)	-	51.02
▪ Entenso Equities Incorporated (EEI) and Subsidiaries	-	49.16 ^(e)	-	51.02
□ Goldtempo Company Incorporated (GCI) ^(a)	-	-	-	-
□ Daily Commodities, Inc. ^(a)	-	-	-	-
□ First Lane Super Traders Co., Inc. ^(a)	-	-	-	-
▪ Purepadala, Inc. ^(c)	-	49.16 ^(e)	-	51.02
Liquor Distribution				
Montosco, Inc.	100	-	100	-
Meritus Prime Distributions, Inc.	100	-	100	-
Premier Wine and Spirits, Inc.	100	-	100	-
Real Estate and Property Leasing				
Nation Realty, Inc.	100	-	100	-
Patagonia Holdings Corp.	100	-	100	-
Ellimac Prime Holdings, Inc. (EPHI)	100	-	100	-
Fertuna Holdings Corp.	100	-	100	-
Pure Petroleum Corp.	100	-	100	-
NE Pacific Shopping Centers Corporation (NPSCC)	100	-	100	-
Specialty Retail				
Office Warehouse, Inc. and a Subsidiary	100	-	100	-
□ Office Warehouse (Harbor Point), Inc. ^(d)	-	100	-	100
Canaria Holdings Corporation (CHC) and Subsidiaries	90	-	90	-
▪ Liquigaz Philippines Corporation (LPC) ^(b)	-	-	-	-
▪ Calor Philippines Holdings, Inc. (CPHI) ^(b)	-	-	-	-
Oil and Mining				
Alcorn Petroleum and Minerals Corporation (APMC)	100	-	100	-

^(a) The merger of PPCI, Goldtempo Company Incorporated, Daily Commodities, Inc., and First Lane Super Traders Co., Inc. (PPCI as the absorbing entity), was approved by SEC on November 22, 2017. PPCI adopts January 1, 2018 as the effective date of the merger.

^(b) On October 19, 2018, the Board of Directors authorized the sale of LPC and CPHI, resulting in their classification as a disposal group held-for-sale as at December 31, 2018 and disposal on January 17, 2019 (see Note 33).

^(c) Incorporated and registered with the Philippine SEC on October 15, 2018 as a money remittance company.

^(d) Incorporated and registered with the Philippine SEC on December 6, 2017 and started its commercial operations in 2018.

^(e) On January 16, 2019, PPCI made a Php4,693,500,000 top-up placement of 104.3 million common shares at a price of Php45.00 per share. The additional shares were issued on March 5, 2019 for total proceeds of P4.6 billion, which resulted in a dilution of the Parent Company's ownership interest of in PPCI from 51.02% to 49.16%. The Parent Company retains the control over PPCI (see Note 3).

2. Basis of Preparation

The consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). PFRS which are issued by the Philippine Financial Reporting Standards Council (FRSC), consist of PFRS, Philippine Accounting Standards (PAS), and Philippine Interpretations.

The accompanying consolidated financial statements were approved and authorized for issuance by the Board of Directors (BOD) on June 9, 2020.

Historical cost is used as the measurement basis except for:

<u>Items</u>	<u>Measurement Bases</u>
Financial assets at FVPL	Fair value
Financial assets at FVOCI (except for unquoted equity investments which are measured at cost)	Fair value
Retirement benefits liability	Present value of the defined benefit obligation less fair value of plan assets

These consolidated financial statements are presented in Philippine peso (P), unless otherwise stated.

Functional and Presentation Currency

The consolidated financial statements are presented in Philippine peso, which is also the Parent Company's functional currency. All financial information expressed in Philippine peso has been rounded off to the nearest peso, unless otherwise stated.

Significant Judgments, Estimates and Assumptions

The preparation of consolidated financial statements requires management to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities which, by definition, will seldom equal the actual results. All assumptions, expectations and forecasts used as a basis for certain estimates within these financial statements represent good faith assessments of the Group's current and future performance for which management believes there is a reasonable basis. They involve risks, uncertainties and other factors that could cause the Group's actual future results, performance and achievements to differ materially from those forecasted

Judgments

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

Determining Term and Discount Rate of Lease Arrangements (Note 21)

Where the Group is the lessee, management is required to make judgments about whether an arrangement contains a lease, the lease term and the appropriate discount rate to calculate the present value of the lease payments.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases entered into by the Group as lessee, management uses the incremental borrowing rate, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group uses an approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group and makes adjustments specific to the lease.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if it is reasonably certain that the lease will be extended (or not terminated) and, as such, included within lease liabilities.

For leases of buildings, stores, distribution centers and warehouses, the following factors are usually the most relevant:

- If any leasehold improvements are expected to have a significant remaining value, the Group is typically reasonably certain to extend (or not terminate).
- If there are significant penalties to terminate (or not extend), the Group is typically reasonably certain to extend (or not terminate).
- Otherwise, the Group considers other factors, including historical lease durations, the costs and business disruption required to replace the leased asset, enforceability of the option, and business and other developments.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and is within the lessee's control, for example, when significant investment in the store is made which has a useful life beyond the current lease term

Operating Leases - Group as a Lessor (Note 21)

The Group has entered into various lease agreements as a lessor to lease its investment properties and sublease portion of its stores to various lessees. The Group has determined that it retains all significant risks and rewards of ownership of these properties which are leased out under operating lease arrangements.

Rent income recognized in profit or loss amounted to P1.5 billion, P1.4 billion and P1.3 billion in 2019, 2018 and 2017, respectively.

Estimates

The key estimates and assumptions used in the consolidated financial statements are based on management's evaluation of relevant facts and circumstances as at the reporting date. Actual results could differ from such estimates.

Estimating Vendor Allowances (Notes 3)

When vendor allowances cannot specifically be identified in the purchase price of products, the Group must estimate the allowances that are earned based on the fulfillment of its related obligations. These estimates may require management to estimate the volume of purchases that will be made during a period of time.

Estimating Allowance for Impairment Losses on Receivables (Note 5)

The Group maintains an allowance for impairment losses on receivables at a level considered adequate to provide for uncollectible receivables. The level of this allowance is evaluated by the Group on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, the length of the Group's relationship with debtors, their payment behavior and known market factors. The Group reviews the age and status of the receivable and identifies accounts that are to be provided with allowance on a regular basis. The amount and timing of recorded expenses for any period would differ if the Group made different judgment or utilized different estimates. An increase in the Group's allowance for impairment losses on receivables would increase the Group's recorded operating expenses and decrease current assets.

As at December 31, 2019 and 2018, the carrying amount of receivables amounted to P16.6 billion and P6.6 billion while the allowance for impairment losses amounted to P48.9 million and P40.3 million, respectively.

Estimating Net Realizable Value (NRV) of Merchandise Inventories (Note 6)

The Group carries merchandise inventory at NRV whenever the selling price less costs to sell becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes. The estimate of the NRV is reviewed regularly.

Estimates of NRV are based on the most reliable evidence available at the time the estimates are made on the amount the inventories are expected to be realized. These estimates take into consideration fluctuations of prices or costs directly relating to events occurring after reporting date to the extent that such events confirm conditions existing at reporting date. The NRV is reviewed periodically to reflect the accurate valuation in the financial records.

The carrying amount of merchandise inventories amounted to P24.7 billion and P23.9 billion as at December 31, 2019 and 2018.

Impairment of Goodwill and Other Intangibles with Indefinite Lives (Note 13)

The Group determines whether goodwill, trademarks and customer relationships are impaired at least annually. This requires the estimation of the recoverable amounts of the goodwill, trademarks and customer relationships. Estimating recoverable amounts requires management to make an estimate of the expected future cash flows from the cash-generating unit to which the goodwill, trademarks and customer relationships relate and to choose a suitable discount rate to calculate the present value of those cash flows.

The carrying amounts of goodwill and other intangibles with indefinite useful lives totaled P20.9 billion as at December 31, 2019 and 2018.

Impairment of Other Non-Financial Assets

The Group assesses impairment on other non-financial assets when events or changes in circumstances indicate that the carrying amount may not be recoverable.

The factors that the Group considers important which could trigger an impairment review include the following:

- significant underperformance relative to the expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

Determining the net recoverable amount of assets requires the estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets. While it is believed that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable amount and any resulting impairment loss could have a material adverse impact on the results of operations.

There are no impairment indicators affecting the Group's non-financial assets as at December 31, 2019 and 2018, except for deferred oil and mineral exploration costs which management assessed to be impaired given the final plug and abandonment of nine production wells for SC 14 and lack of significant progress on the remaining projects (see Note 14). The Group recognized a full impairment loss of P128.1 million in 2019 (see Note 23).

As at December 31, 2019 and 2018, the following are the carrying amounts of nonfinancial assets:

	<i>Note</i>	2019	2018, (Restated)
Property and equipment - net	11	P27,927,953	P26,343,793
Investment properties - net	12	11,125,998	10,836,618
Investments in joint venture and associate	10	741,175	603,175
Computer software and licenses, and leasehold rights	13	237,077	242,862
Deferred oil and mineral exploration costs - net	14	-	123,365
Right-of-use assets - net	21	21,700,103	20,082,426

Estimating Realizability of Deferred Tax Assets (Note 27)

The Group reviews the carrying amount of deferred tax assets at each reporting date 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. The Group also reviews the expected timing and tax rates upon reversal of the temporary differences and adjusts the impact of deferred tax accordingly. The Group's assessment on the recognition of deferred tax assets is based on the forecasted taxable income of the subsequent reporting periods. This forecast is based on the Group's past results and future expectations on revenues and expenses.

As at December 31, 2019 and 2018, the Group recognized net deferred tax assets (liabilities) amounting to P437.7 million and (P81.4) million.

Estimating Retirement Benefits Liability (Note 26)

The present value of the retirement benefits liability depends on a number of assumptions that are determined on an actuarial basis. The assumptions used in determining the net cost (income) for retirement benefits include the discount rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement benefits liability. Other key assumptions include future salary, mortality and attrition. Additional information is disclosed in Note 26.

Retirement benefits liability amounted to P955.8 million and P508.5 million as at December 31, 2019 and 2018.

3. Summary of Significant Accounting Policies

The Group has consistently applied the accounting policies to all years presented in these consolidated financial statements, except for the changes below.

Adoption of New or Revised Standards, Amendments to Standards, and Interpretations

The Group adopted the following relevant new standards, amendments to standards and interpretations starting January 1, 2019 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption did not have any significant impact on the Group's consolidated financial statements.

- PFRS 16, *Leases*

The Group applied PFRS 16 with a date of initial application of January 1, 2019. As a result, the Group changed its accounting policies for lease contracts as detailed below.

The Group applied PFRS 16 using the retrospective approach. The adoption of PFRS 16 has resulted in restatements of the Group's 2018 and 2017 comparative amounts; see Note 35 for more information.

- Previously held interest in a joint operation (Amendments to IFRS 3, *Business Combinations* and PFRS 11, *Joint Arrangements*)

The amendments to PFRS 3 and PFRS 11 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to PFRS 3 apply prospectively for annual periods beginning on or after January 1, 2019. These amendments have no impact on the consolidated financial statements.

- Borrowing costs eligible for capitalization (Amendments to PAS 23, *Borrowing Costs*).

The amendments clarify that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale are included in that general pool. These amendments have no impact on the consolidated financial statements.

- Plan Amendment, Curtailment or Settlement (Amendments to PAS 19, *Employee Benefits*)

The amendments to PAS 19 clarify the accounting for defined benefit plan amendments, curtailments and settlements. They confirm that entities must: (i) calculate the current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement by using the updated assumptions from the date of the change; (ii) recognize any reduction in a surplus immediately in profit or loss either as part of past service cost, or as a gain or loss on settlement; and (iii) separately recognize any changes in the asset ceiling through other comprehensive income. These amendments have no impact on the consolidated financial statements.

- Long-term Interests in Associates and Joint Ventures (Amendments to PAS 28, *Investments in Associates and Joint Ventures*)

The amendments to PAS 28 were made to clarify that PFRS 9, "Financial Instruments," applies to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. These amendments have no impact on the consolidated financial statements.

- Philippine Interpretation IFRIC 23, *Uncertainty over Tax Treatments*

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, while also aiming to enhance transparency. IFRIC 23 became effective on January 1, 2019. The interpretation does not have an impact on the consolidated financial statements.

New Accounting Policies Not Yet Effective for 2019

A number of standards, or revisions to standards, that are not yet effective for 2019, but will become effective in coming years.

- Definition of Material (Amendments to PAS 1, *Presentation of Financial Statements* and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*)

The amendments to PAS 1 and PAS 8 clarify the definition of material and how it should be applied by stating that information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments to PAS 1 and PAS 8 apply prospectively for annual periods beginning on or after January 1, 2020. The Group does not anticipate that the application of these amendments will have a significant effect on the future consolidated financial statements.

- Definition of a Business (Amendments to PFRS 3, *Business Combinations*)

The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term "outputs" is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. The amendments added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets. The amendments to PFRS 3 apply prospectively for annual periods beginning on or after January 1, 2020. The Group anticipates that the amendments could result in more acquisitions being accounted for as asset acquisitions.

Consolidation

The consolidated financial statements incorporate the financial amounts of the Parent Company and its subsidiaries. Subsidiaries are entities over which the Parent Company has control. The Parent Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date that control commences until the date that control ceases. All intra-group transactions, balances, income and expenses are eliminated upon consolidation. Unrealized losses on intragroup transactions are eliminated, unless the transaction provides evidence of an impairment of the assets transferred.

Non-controlling interests represent the portion of profit or loss and net assets not held by the Parent Company and are presented separately in the consolidated statements of income, consolidated statements of comprehensive income and within equity in the consolidated statements of financial position, separately from the equity attributable to the equity holders of the Parent Company.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights

Business Combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired and the liabilities assumed. Transaction costs are expensed as incurred.

Statement of Cash Flows

The Group has chosen to prepare the consolidated statement of cash flows using the indirect method, which presents cash flows from operating activities as the income from operations adjusted for non-cash transactions, deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows. Interest paid on loans is presented as a financing activity. The Group has chosen to present dividends paid to its stockholders as a financing activity cash flow. In the cash flow statement, the Group has classified the principal portion of lease payments, as well as the interest portion, within financing activities. Lease payments are split between interest and principal portions in the cash flow statement. Lease payments for short-term leases, lease payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability are classified as cash flows from operating activities. The Group has classified cash flows from operating leases as operating activities.

Common Control Business Combinations

Business combinations involving entities under common control are business combinations in which all of the entities are controlled by the same party both before and after the business combination. The Group accounts for such business combinations in accordance with the guidance provided by the Philippine Interpretations Committee Question and Answer (PIC Q&A) No. 2011-02, *PFRS 3.2 Common Control Business Combinations*.

The purchase method of accounting is used, if the transaction was deemed to have commercial substance from the perspective of the reporting entity. In determining whether the business combination has commercial substance, factors such as the underlying purpose of the business combination and the involvement of parties other than the combining entities such as the non-controlling interest, shall be considered. In cases where the transaction has no commercial substance, the business combination is accounted for using the pooling of interests method.

In applying the pooling of interests method, the Group follows PIC Q&A No. 2012-01, *PFRS 3.2 - Application of the Pooling of Interests Method for Business Combinations of Entities under Common Control in Consolidated Financial Statements*, which provides the following guidance:

- The assets and liabilities of the acquired company for the reporting period in which the common control business combinations occur, are included in the Group's consolidated financial statements at their carrying amounts from the actual date of the acquisition. No adjustments are made to reflect the fair values or recognize any new assets or liabilities at the date of the combination. The only adjustments would be to harmonize accounting policies between the combining entities;
- No 'new' goodwill is recognized as a result of the business combination. The excess of the cost of business combinations over the net carrying amounts of the identifiable assets and liabilities of the acquired company is considered as equity adjustment from business combinations, included under "Retained earnings" account in the equity section of the statements of financial position; and
- As a policy, no restatement of financial information in the Group's consolidated financial statements for periods prior to the transaction is made.

Segment Reporting

The Group's operating segments are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on operating segments is presented in Note 29 to the consolidated financial statements.

The measurement policies the Group used for segment reporting under PFRS 8 are the same as those used in its consolidated financial statements. There have been no changes in the measurement methods used to determine reported segment profit or loss from prior periods.

Segment revenues, expenses and performance include sales and purchases between business segments. Such sales and purchases are eliminated in consolidation.

Financial Instruments

Financial Assets

Financial assets are recognized when the Group becomes a party to the contractual provisions of a financial instrument. Financial assets are derecognized when the rights to receive cash flows from the financial assets expire, or if the Group transfers the financial asset to another party and does not retain control or substantially all risks and rewards of the asset. Regular-way purchases and sales of financial assets in the normal course of business are accounted for at settlement date (i.e., the date that the asset is delivered to or by the Group). At initial recognition, the Group measures its financial assets at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset

Financial instruments are recognized initially at 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 as fair value through profit or loss (FVTPL), includes transaction costs. A trade receivable without significant financing component is initially measured at the transaction price.

After initial recognition, the Group classifies its financial assets as subsequently measured at either i) amortized cost, ii) fair value through other comprehensive (FVOCI) income or iii) FVTPL on the basis of both:

- The Group's business model for managing the financial assets
- The contractual cash flow characteristics of the financial asset

Subsequent to initial recognition, financial assets are measured as described below. At each balance sheet date, the Group assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired and recognizes a loss allowance for expected credit losses for financial assets measured at either amortized costs or at fair value through other comprehensive income. If, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12 months of expected credit losses. If, at the reporting date, the credit risk on a financial instrument has increased significantly since initial recognition, the Group measures the loss allowance for the financial instrument at an amount equal to the lifetime expected credit losses. The Group always measures the loss allowance at an amount equal to lifetime expected credit losses for receivables.

A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience, credit assessment and including forward-looking information.

The information analyzed by the Group includes the following, among others:

- actual and expected significant changes in the political, regulatory and technological environment of the debtor or in its business activities.

- payment record - this includes overdue status as well as a range of variables about payment ratios.
- existing and forecast changes in the business, financial and economic conditions.

The Group considers a financial asset to be in default when:

- the debtor is unlikely to pay its credit obligation to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or
- the debtor is past due more than 90 days on any material credit obligation to the Group.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Trade and other receivables are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, the financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Financial Assets at Amortized Cost

Financial assets are measured at amortized cost if both i) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and ii) 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.

A financial asset measured at amortized cost is initially recognized at fair value plus transaction cost directly attributable to the asset. After initial recognition, the carrying amount of the financial asset measured at amortized cost is determined using the effective interest method, less any impairment losses.

Financial assets at amortized cost are classified as current assets when the Group expects to realize the asset within 12 months from reporting date. Otherwise, these are classified as noncurrent assets.

Cash and cash equivalents, receivables, due from related parties and security deposits are included in this category.

Cash includes cash on hand and in banks which are stated at face value. 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 the date of acquisition and are subject to an insignificant risk of change in value.

Financial Assets at FVOCI

A debt financial asset is measured at FVOCI if both i) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and ii) 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. On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI.

The financial asset is recognized initially at fair value plus transaction cost directly attributable to the asset. After initial recognition, the asset is measured at fair value with changes in fair value included in other comprehensive income. For debt instruments, interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other gains and losses recognized in OCI. Accumulated gains or losses recognized through other comprehensive income are reclassified to profit or loss when the asset is derecognized. For equity investments, dividends are recognized in profit or loss while other gains and losses are recognized in OCI and are never reclassified to profit or loss.

The Group's equity securities are included in this category.

The Group has no financial assets at FVOCI with recycling of cumulative gains or losses (debt instruments) as at December 31, 2019 and 2018.

Financial Assets at FVTPL

When any of the above-mentioned conditions for classification of financial assets are not met, a financial asset is classified as at FVTPL and measured at fair value with changes in fair value recognized in profit or loss.

A financial asset measured at FVTPL is recognized initially at fair value and its transaction cost is recognized in profit or loss when incurred. A gain or loss on a financial asset measured at fair value through profit or loss is recognized in profit or loss for the reporting period in which it arises.

The Group may, at initial recognition, irrevocably designate a financial asset as measured at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

The Group's investments in equity securities traded in the PSE is included under this category.

Financial Liabilities

Financial liabilities are recognized when the Group becomes a party to the contractual provisions of a financial instrument. Financial liabilities are derecognized when the Group's obligations specified in the contract expire or are discharged or cancelled.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group classifies all financial liabilities as subsequently measured at amortized cost, except for:

- (a) financial liabilities designated by the Group at initial recognition as at fair value through profit or loss, when doing so results in more relevant information.
- (b) financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.
- (c) contingent consideration recognized by the Group in a business combination which shall subsequently be measured at fair value with changes recognized in profit or loss.

- (d) financial guarantee contracts and commitments to provide a loan at a below-market interest rate which are initially measured at fair value and subsequently at the higher of amortized amount and amount of loss allowance.

Any difference between the proceeds and redemption value is recognized in the income statement over the period of the loans and short-term borrowings using the effective interest method.

Financial liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Trade and other payables, short-term loans, long-term loans, lease liabilities, due to related parties and customers' deposits are generally included in this category.

Customers' Deposits

Refundable noninterest-bearing security deposits from customers under operating lease agreements are initially valued at the fair values based on its present values of the estimated future cash flows. The difference between the cash received and its fair value is recorded as unearned rent income in the consolidated statements of financial position and is amortized to rental income over the lease term. Subsequently, the customers' deposits are carried at amortized cost using the effective interest method.

Offsetting Financial Instruments

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

'Day 1' Profit. Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and the fair value (a 'Day 1' profit) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where data used is not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' profit amount.

Fair Value Measurements

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 measurement date. The fair value is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the most advantageous market for the asset or liability. The principal or most advantageous market must be accessible to the Group.

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group 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 consolidated 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 prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs for the asset or liability that are not based on observable market data.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing the categorization at the end of each reporting period.

Inventories

Inventories are valued at the lower of cost and net realizable value. Inventories include merchandise inventories, liquors, wines and spirits. Costs incurred in bringing each inventory to its present location and condition are accounted as follows:

Merchandise inventories	- Purchase price, including duties, transport and handling costs, and other incidental expenses, determined using moving average method
Liquors, wines and spirits.	- Purchase price, including duties, transport and handling costs, and other incidental expenses, determined using first-in, first-out method

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

Investments in Joint Arrangements and Associates

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor has rather than the legal structure of the joint arrangement. Joint operations arise where the Group has both rights to the assets and obligations for the liabilities relating to the arrangement and, therefore, the Group accounts for its share of assets, liabilities, revenue and expenses. Joint ventures arise where the Group has rights to the net assets of the arrangement and, therefore, the Group equity accounts for its interest.

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Significant influence is defined as the power to participate in the financial and operating policy decisions of the entity but not control or joint control over those policies. Associates are accounted for using the equity method.

Under the equity method, investments in associates and joint ventures are measured initially at cost and subsequently adjusted for post-acquisition changes in the Group's share of the net assets of the investment (net of any accumulated impairment in the value of individual investments). Where necessary, adjustments are made to the financial amounts of the associates and joint ventures to ensure consistency with the accounting policies of the Group. Unrealized gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of Group's stake in these investments. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the assets transferred.

Property and Equipment

Property and equipment, excluding land and construction in progress, are carried at cost less accumulated depreciation, amortization and impairment losses, if any. Land is carried at cost. Construction in progress represents structures under construction and is stated at cost. This includes the costs of construction and other direct costs. Construction in progress is not depreciated until such time that the relevant assets are ready for use.

Initially, an item of property and equipment is measured at its cost, which comprises its purchase price and any directly attributable costs of bringing the asset to the location and condition for its intended use. Subsequent expenditures 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, will flow to the Group. All other subsequent expenditures are recognized in profit or loss.

Depreciation are computed on a straight-line basis over the estimated useful lives of the assets as follows:

	Number of Years
Buildings	15 - 30
Furniture and fixtures	2 - 20
Office and store equipment	2 - 15
Transportation equipment	3 - 5

Wells, platforms and other facilities comprising oil and gas property represents the Group's share in the Service Contract (SC) 14's total capitalized exploration and development expenditures. These are depreciated using the unit-of-production method based upon estimates of proven developed reserves. Proven developed reserves are the portion of reserves that are reasonably certain to be produced and sold during the remaining period of existing production licenses and agreements. The effect of revisions of previous estimates of proved developed reserves is taken up prospectively in the unit-of-production calculation. Estimates of decommissioning and abandonment costs, which are accrued based on unit-of-production rate, which depends on approved budget and reserve estimates, are also included in the wells, platforms and other facilities account as these costs are treated as recoverable costs to be deducted from oil sales proceeds prior to remittance of government share as indicated in the agreement among Consortium members under the SC.

Leasehold improvements are amortized over 3 to 20 years or the lease term, whichever is shorter.

Depreciation of an item of property and equipment begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation or amortization ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, and the date the asset is derecognized.

The estimated useful lives and depreciation method are reviewed periodically to ensure that the periods and method of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation is recognized in profit or loss. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and any impairment in value are removed from the accounts and any resulting gain or loss is recognized in profit or loss.

Investment Properties

Investment properties consist of land and buildings held to earn rentals. Investment properties are initially measured at cost, including transaction costs. The carrying amount includes the costs of replacing part of an existing investment property at the time the costs are incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing an investment property. Investment properties, except for land, are stated at cost less accumulated depreciation and any accumulated impairment in value. Land is stated at cost less any accumulated impairment in value.

Depreciation is computed on a straight-line basis over the estimated useful lives of the investment properties as follows:

	Number of Years
Land improvements	25
Buildings	10 - 50

The remaining useful lives and depreciation method are reviewed periodically to ensure that such periods and methods of depreciation are consistent with the expected pattern of economic benefits from buildings and land improvements.

Buildings in progress which represents properties under construction are stated at cost and depreciated only from such time as the relevant assets are completed and put into operational use. Upon completion, these properties are classified to the relevant investment property or property and equipment account.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to earn rentals.

For a transfer from investment property to owner-occupied property, the cost of property for subsequent accounting is its carrying value at the date of change in use. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

Investment properties are derecognized when either they have been disposed of, or when investment properties are permanently withdrawn from use and no future economic benefits is expected from its disposal. Any gains or losses on the retirement or disposal of investment properties are recognized in profit or loss in the year of retirement or disposal.

Construction in Progress

Construction in progress, which are stated at cost, are properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, which are carried at cost less any recognized impairment loss. This includes the costs of construction and other direct costs. These assets are not depreciated until such time that the relevant assets are completed and available for use.

Assets Held for Sale

Noncurrent assets or disposal groups comprising assets and liabilities, are classified as held for sale if it is highly probable that they will be primarily through sale rather through continuing use.

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held-for-sale and subsequent gains and losses on remeasurement are recognized in profit or loss.

Once classified as held for sale, any equity-accounted investee is no longer equity accounted.

Goodwill and Other Intangibles

Goodwill and Impairment of Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group's interest in the net fair value of the identifiable assets, liabilities and assumed contingent liabilities at the date of acquisition. It is carried at cost less accumulated impairment losses. Goodwill on acquisitions of joint ventures and associates is included in the carrying amount of the investment. For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of a business combination. Goodwill is allocated to a cash-generating unit (or group of cash-generating units) representing the lowest level within the Group at which the goodwill is monitored for internal management purposes and is never larger than an operating segment before aggregation. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the cash-generating unit may be impaired. Goodwill on acquisitions of associates and joint ventures is assessed for impairment as part of the investment whenever there is an indication that the investment may be impaired. An impairment loss is recognized for the amount by which the cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of a cash-generating unit's fair value less costs of disposal or its value in use. An impairment loss is allocated first to reduce the carrying amount of the goodwill and then to the other assets of the cash generating unit pro rata on the basis of the carrying amount of each asset. An impairment loss recognized for goodwill is not reversed in subsequent periods.

Other Intangible Assets

Separately acquired intangible assets are carried at cost less accumulated amortization and impairment losses. Intangible assets acquired in a business combination are recognized at fair value at the date of acquisition. Trademarks and customer relationships acquired in business acquisitions are stated at acquisition date fair value determined using an income approach.

Trademarks and other intangible asset with indefinite lives are assessed for impairment annually, or whenever there is an indication that the asset may be impaired.

Deferred Oil and Mineral Exploration Costs

Deferred oil and exploration costs are accounted for using the full-cost method, where all acquisition, exploration and development costs are capitalized as deferred costs when incurred and on the basis of each contract area. Where oil and gas of commercial quantity is produced, the exploration and development costs are reclassified to and capitalized as wells, platforms and other facilities under the "Property and equipment" account. Producing and non-producing contract areas are evaluated periodically and considering a number of factors, a determination is made whether it is probable that a significant impairment of the carrying cost of deferred oil and mineral exploration costs of each contract area has occurred. If impairment is believed to have occurred, a further analysis is performed to determine the impairment to be recorded for specific contract areas.

If the Group abandons all exploration efforts in a contract area where there are no proven reserves, all acquisition and exploration costs associated with the contract area are recognized in profit or loss. A contract area is considered abandoned if the contract has expired and/or there are no definite plans for further exploration and development.

Proceeds from the sale of crude oil lifted from an area under production testing during the exploration stage are applied against deferred oil exploration costs.

Expenditures for mineral exploration and development work are capitalized as deferred costs when incurred. These expenditures are provided for with an allowance for impairment when there are indications that the exploration results are negative. These are recognized in profit or loss when the projects are abandoned or determined to be definitely unproductive. When the exploration work results are positive, the exploration costs and subsequent development costs are capitalized and amortized using the unit of production method from the start of commercial operations.

Impairment of Other Non-financial Assets

The Group assesses whether there is any indication that non-current assets may be impaired. If indicators of impairment exist, the Group estimates the recoverable amount of the asset. If it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which it belongs. Individual stores are considered separate cash-generating units for impairment testing purposes. The carrying value of the store includes mainly its property, plant and equipment and right-of-use assets (if held under a lease arrangement). The recoverable amount is the higher of an asset's fair value less costs of disposal or the asset's value in use.

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.

An impairment loss is recognized in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Employee Benefits

Short-term Employee Benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Retirement Benefits Cost

The Group's net obligation in respect of the defined benefit plan is calculated by estimating the amount of the future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligation is performed on a periodic basis by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan, if any.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability (asset), taking into account any changes in the net defined liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to the defined benefit plan are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss.

The Group has a non-contributory multi-employer plan which is accounted for as a defined benefit plan. The Group is not required to pre-fund the future defined benefits payable under the Retirement Plan before they become due. For this reason, the amount and timing of contributions to the Retirement Fund to support the defined benefits are at the Group's discretion. However, in the event a defined benefit claim arises and the Retirement Fund is insufficient to pay the claim, the shortfall will then be due and payable by the Group to the Retirement Fund.

The Group recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Equity

Capital Stock

Capital stock is classified as equity. Incremental costs directly attributable to the issuance of capital stock are recognized as a deduction from equity, net of any tax effects.

Additional Paid-in Capital

The amount of contribution in excess of par value is accounted for as "Additional paid-in capital." Additional paid-in capital also arises from additional capital contributions from the shareholders.

Retained Earnings and Dividend Distribution

Retained earnings include all current and prior period results as reported in profit or loss, prior period adjustments less declaration of dividends.

Dividend distribution to the Group's shareholders is recognized as a liability and deducted from equity in the Group's consolidated statements of financial position in the period in which the dividends are approved and declared by the Group's BOD.

Treasury Stock

Own equity instruments which are reacquired are carried at cost and are deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. When the shares of stock are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is charged to additional paid-in capital to the extent of the specific or average additional paid-in capital when the shares of stock were issued and to retained earnings for the remaining balance.

Unappropriated retained earnings represent that portion which is free and can be declared as dividends to shareholders. Appropriated retained earnings represent that portion which has been restricted and, therefore, not available for dividend declaration.

Cash dividends on common shares are recognized as liability and deducted from equity when approved by the BOD of the Parent Company. Dividends for the year that are approved after the balance sheet date are dealt with as an event after the balance sheet date.

Other Comprehensive Income

Other comprehensive income are items of income and expense (including reclassification adjustments, if any) such as remeasurements of defined benefit plans that are not recognized in profit or loss as required or permitted by the related accounting standards.

Revenue Recognition

The Group identifies each distinct performance obligation to transfer goods (or bundle of goods) or services. The Group recognizes revenue when (or as) it satisfies a performance obligation by transferring the control of goods or services to the customer. The transaction price is the amount of consideration the Group expects to receive under the arrangement. The Group concluded that it is acting as principal for all its revenue arrangements below, except for concession fee income and other rental income.

- *Merchandise Sales* - The Group generally recognizes sale of merchandise at the point of sale when customer takes possession of goods and tenders payment. At point of sale, the performance obligation is satisfied because control of the merchandise transfers to the customer. Revenue is recorded at the point of sale based on the transaction price on the merchandise tag, net of any applicable discounts, sales taxes and refunds. For e-commerce sales, the Group recognizes sales upon delivery of goods through its online channel.

- *Concession Fee Income* - The Group enters into certain agreements with concessionaires that offer goods to the Group's customers. In exchange, the Group receives payment in the form of commissions based on a specified percentage of the merchandise sales. The Group serves as agent in these contracts and recognizes the net amount earned as commissions in the period in which the event or condition that triggers the payment occurs.
- *Membership* - The Group charges a membership fee to its customers. The fee allows the customer to shop in the Group's stores for the duration of the membership, which is generally 12 months. The Group recognizes the fee in the period in which it occurs.
- *Gift Certificates* - The Group recognizes revenue from the sale gift certificates when the gift certificate is redeemed by customer.
- *Other Income* - The Group recognizes various incidental income in the period in which the services/goods were rendered/delivered.

PIC Q&A 2018-12-H Accounting for Common Usage Service Area (CUSA) Charges
The interpretation issued by the Philippine Interpretations Committee (PIC) serves as a guidance on some implementation issues brought about by adoption of PFRS 15, *Revenue from Contracts with Customer's* on the real estate industry.

The interpretation is approved on February 14, 2018, with an option to defer the application of the provisions for a period of three (3) years.

In 2019, the Group adopted PIC Q&A 2018-12-H *Accounting for Common Usage Service Area (CUSA) Charges*. The impact of adoption is applied retrospectively which resulted to the restatements in the consolidated statement of financial position at January 1, 2018.

The impact of the Group's adoption of the interpretation is discussed in Note 35.

Contract Balances

Receivables

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

The sales activities of the Group do not result in a material amount of unperformed obligations of the Group and, therefore, no contract assets are recognized separately from receivables.

Contract Liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Group performs under the contract.

The Group does enter into transactions with customers where contract liabilities result from consideration being received from the customer prior to the Group satisfying its performance obligations. These contract liabilities are presented on the statement of financial position and in the notes as unredeemed gift certificate liabilities.

Cost and Expense Recognition

The Group's cost of sales includes the direct costs of sold merchandise, which includes custom, taxes, duties and inbound shipping costs, inventory shrinkage and adjustments and reserves for excess, aged and obsolete inventory. Cost of sales also includes certain distribution center costs.

Vendor Rebates and Allowances

The Group receives various types of cash consideration from vendors, principally in the form of rebates, based on purchasing or selling certain volumes of product, time-based rebates or allowances, which may include product placement allowances or exclusivity arrangements covering a predetermined period of time, price protection rebates and allowances for retail price reductions on certain merchandise and salvage allowances for product that is damaged, defective or becomes out-of-date.

Such vendor rebates and allowances are recognized based on a systematic and rational allocation of the cash consideration offered to the underlying transaction that results in progress by the Group's toward earning the rebates and allowances, provided the amounts to be earned are probable and reasonably estimable. Otherwise, rebates and allowances are recognized only when predetermined milestones are met. The Group recognizes product placement allowances also as a reduction of cost of sales in the period in which the product placement is completed. Time-based rebates or allowances are recognized as a reduction of cost of sales over the performance period on a straight-line basis. All other vendor rebates and allowances are recognized as a reduction of cost of sales when the merchandise is sold or otherwise disposed.

Operating Expenses

Operating expenses constitute costs of administering the business. These are recognized as expenses as incurred.

Leases

The Group has applied PFRS 16 using the retrospective approach.

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset - this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physical distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset. The Group has the right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of the asset if either:
 - the Group has the right to operate the asset; or
 - the Group designed the asset in a way that predetermines how and for what purpose it will be used.

The Group has applied this approach to contracts entered into or changed on or after January 1, 2019. The Group's approach to other contracts is explained in Note 3.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single component.

As a Lessee

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct cost incurred and an estimate of costs to dismantle and remove or restore the underlying asset or the site on which it is located, less any incentives received.

The right-of-use assets are subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use assets or the end of lease term. The estimated useful lives of the right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rates as the discount rate.

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

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

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Variable Lease Payments

Variable lease payments not based on an index or rate are not part of the lease liability. These include payments linked to a lessee's performance derived from the underlying asset. Such payments are recognized in profit or loss in the period in which the event or condition that triggers those payments occurs.

Lease Modifications as a Lessee

The Group accounts for a lease modification as a separate lease if both the modification increases the scope of the lease by adding the right to use one or more underlying assets and the consideration for the lease increases by an amount commensurate with the standalone price and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group allocates the consideration in the modified contract based on stand-alone prices, determines the lease term and remeasures the lease liability by discounting the revised lease payments using a revised discount rate. For a lease modification that is not accounted for as a separate lease, the Group accounts for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease. The Group recognizes in profit or loss any gain or loss relating to the partial or full termination of the lease. The Group makes a corresponding adjustment to the right-of-use asset for all other lease modifications.

Short-term Leases and Leases of Low-value Assets

The Group has elected not to recognize right-of-use assets and lease liabilities for short-term leases of 12 months or less and leases of low-value assets. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

As a Lessor

When the Group act as a lessor, it determines at lease commencement whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers to the lessee substantially all of the risk and rewards of ownership incidental to ownership of the underlying asset. If this is the case, then the lease is finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies exemption described above, then it classifies sub-lease as operating lease.

The Group recognizes lease payments received under operating leases as income on a straight-line basis over the lease term as part of other income.

Borrowing Costs

Borrowing costs are recognized as expenses when incurred, except to the extent capitalized. Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized.

Income Taxes

Current tax and deferred tax are recognized in the statements of income except to the extent that it relates to a business combination, or items recognized directly in equity or in OCI.

Uncertainties related to taxes that are not income taxes are recognized and measured in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets* unless they are dealt with specifically in another standard.

Current Tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred Tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- with respect to taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits - Minimum Corporate Income Tax (MCIT) and unused tax losses - Net Operating Loss Carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of MCIT and NOLCO can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- with respect to deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the 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 rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at reporting date.

Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

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

Value Added Tax (VAT)

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

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax 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 tax included.

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of "Prepaid expenses and other current assets" or "Accounts payable and accrued expenses" in the consolidated statements of financial position.

Foreign Currency Transactions and Translation

Transactions in currencies other than Philippine peso are recorded at the rates of exchange prevailing on the dates of the transactions. Outstanding monetary assets and liabilities denominated in foreign currencies are translated using the closing exchange rate at the reporting date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Basic and Diluted Earnings Per Share (EPS)

Basic EPS is computed by dividing net income by the weighted average number of common shares outstanding during the period, after retroactive adjustment for stock dividend declared in the current period, if any. Diluted EPS is also computed in the same manner as the aforementioned, except that, the net income and the number of common shares outstanding is adjusted for the effects of all potential dilutive debt or equity instruments.

Related Parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities.

Provisions and Contingencies

A provision is recognized when the Group has a legal or constructive obligation as a result of a past event; it is probable that an outflow of economic benefits will be required to settle the obligation; and a reliable estimate can be made on the amount of the obligation.

Provisions are revisited at each reporting date and adjusted to reflect the current best estimate. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pretax rate that reflects the 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 interest expense.

Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed in the notes to the consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable.

Events After the Reporting Date

Post year-end events that provide additional information about the Group's position at the reporting date (adjusting events) are recognized in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

4. Cash and Cash Equivalents

This account consists of:

<i>(In thousands)</i>	<i>Note</i>	2019	2018
Cash on hand		P1,386,391	P1,189,303
Cash in banks	31	9,876,932	4,849,703
Money market placements	31	13,138,691	10,745,855
		P24,402,014	P16,784,861

Cash in banks earns interest at the respective bank deposit rates.

Money market placements are made for varying periods up to three months depending on the immediate cash requirements of the Group and earn interest at the prevailing money market placement rates ranging from 2.65% to 4.80% in 2019, 2.65% to 6.9% in 2018, and 0.30% to 3.75% in 2017.

Interest income earned from cash in banks and money market placements amounted to P495.8 million, P200.4 million and P133.1 million in 2019, 2018 and 2017, respectively.

5. Receivables

This account consists of:

<i>(In thousands)</i>	<i>Note</i>	2019	2018
Loans receivable	25	P11,898,908	P -
Trade receivables		3,754,127	5,069,825
Non-trade receivables		582,867	1,475,718
Interest receivable	25	342,119	-
Others		108,818	125,682
		16,686,839	6,671,225
Less allowance for impairment losses on trade receivables		48,947	40,298
	31, 32	P16,637,892	P6,630,927

Trade receivables generally have a one-to-30-day credit terms.

Non-trade receivables consists mainly of e-wallet balance, accrued vendor allowance income and rent due from store tenants.

The movements in the allowance for impairment losses in respect of trade receivables are as follows:

<i>(In thousands)</i>	2019	2018
Beginning balance	P40,298	P134,420
Provisions during the year	8,649	12,798
Reclassification to assets classified as held-for-sale	-	(106,920)
Ending balance	P48,947	P40,298

6. Inventories

This account consists of:

<i>(In thousands)</i>	<i>Note</i>	2019	2018
At cost:			
Merchandise inventories		P19,977,588	P20,200,962
Liquors, wines and spirits		4,744,683	3,730,695
	20	P24,722,271	P23,931,657

Inventory charged to cost of goods sold amounted to P135.5 billion, P139.2 billion and P119.7 billion in 2019, 2018 and 2017, respectively (see Note 20).

7. Financial Assets at Fair Value Through Profit or Loss

This account represents the Group's investments in equity securities traded in the PSE. The fair values of these securities are based on their closing market prices as at the reporting dates

The movements in these securities are as follows:

<i>(In thousands)</i>	<i>Note</i>	2019	2018
Cost		P15,356	P16,356
Valuation Adjustments			
Balance at beginning of year		21,147	30,532
Unrealized valuation loss for the year		(1,582)	(10,385)
Balance at end of year		19,565	20,147
	31	P34,921	P36,503

8. Financial Assets at Fair Value Through Other Comprehensive Income

This account consists of:

<i>(In thousands)</i>	<i>Note</i>	2019	2018
Investments in common shares			
Quoted	<i>31, 32</i>	P8,138	P5,956
Unquoted	<i>31, 32</i>	2,304	2,304
		10,442	8,260
Investments in preferred shares	<i>31, 32</i>	7,262	7,262
		17,704	15,522
Less current portion		9,209	7,643
Non-current portion	<i>10</i>	P8,495	P7,879

Quoted shares also represent the Group's investments in equity securities traded in the PSE, which are designated as FVOCI.

Unquoted shares represent investments in a private domestic company and club membership shares.

Investments in preferred shares pertain to Manila Electric Company which were acquired in connection with the installation of electrical systems for the various stores and offices of the retail segment.

The movements in this account are as follows:

<i>(In thousands)</i>	2019	2018
Balance at beginning of year	P15,522	P17,114
Unrealized fair value gains (losses)	2,182	(1,592)
Balance at end of year	P17,704	P15,522

The movements in the cumulative unrealized fair value gain are as follows:

<i>(In thousands)</i>	2019	2018
Balance at beginning of year	P3,420	P5,012
Unrealized fair value gain (loss) during the year	2,182	(1,592)
Balance at end of year	P5,602	P3,420

9. Prepaid Expenses and Other Current Assets

This account consists of:

<i>(In thousands)</i>	2019	2018, (Restated)
Prepaid expenses	P862,177	P1,272,215
Advances to suppliers	634,763	469,961
Input VAT	464,607	626,808
Creditable withholding tax	23,486	39,881
Deferred input VAT - current	4,153	190,966
Others	11,314	8,899
	P2,000,500	P2,608,730

Advances to suppliers pertain to partial downpayments made by the liquor distribution segment to foreign suppliers.

Prepaid expenses pertain mainly to the unamortized portion of premiums for insurance coverage and registration fees and other taxes paid to the Government, and advance payments for advertisements and promotions.

<i>(In thousands)</i>	2019	2018, (Restated)
Taxes and licenses	P574,952	P1,024,755
Insurance	127,230	102,716
Advertising and promotion	79,305	88,984
Supplies	36,555	26,060
Repairs and maintenance	9,051	6,128
Rent	758	1,010
Others	34,326	22,562
	P862,177	P1,272,215

10. Investments in Associates and Joint ventures

This account consists of:

<i>(In thousands)</i>	Note	2019	2018, (Restated)
Investments in associates		P565,779	P433,543
Investments in joint ventures		175,396	169,632
		P741,175	P603,175

The composition of the carrying value of the Group's investments in associates and joint ventures and the related percentages of ownership interest are shown below:

<i>(In thousands)</i>	Percentage of Ownership		Carrying Amount	
	2019	2018	2019	2018
Associates:				
San Roque Supermarkets Retail Systems, Inc. ("SRS")	49	49	P447,586	P433,543
Pernod Ricard Philippines, Inc. ("Pernod")	30	-	118,193	-
Peninsula Land Bay Realty Corporation ("PLBRC")	-	-	-	-
			565,779	433,543
Joint ventures:				
AyaGold Retailers, Inc. ("AyaGold")	50	50	P175,396	P169,632
PG Lawson Company, Inc. ("PG Lawson")	-	-	-	-
Mariveles Joint Venture Corporation ("MJVC")	-	-	-	-
			175,396	169,632
			P741,175	P603,175

All associates and joint ventures are incorporated in the Philippines.

Investments in Associates

SRS

In 2013, the Group through Entenso acquired 49.34% equity interest in SRS, a local entity that operates the chain of "San Roque Supermarket" stores and "San Roque Pharmacy" stores in Metro Manila and nearby areas.

PERNOD

The Group entered into a Shareholder's Agreement and Share Purchase Agreement with Pernod Ricard Asia S.A.S and Allied Netherlands B.V. for the purchase of shares of Pernod Ricard Philippines, Inc. ("PERNOD") for Euro2.1 million in February 2019. As at December 31, 2019, the Group owns 30% of PERNOD.

PLBRC

The Group's interest in PLBRC is held indirectly at an effective interest of 45% through LPC (at 20% interest) and through CPHI (at 30% interest). PLBRC is primarily engaged in the business of acquiring, developing and leasing real estate properties to joint venture.

As of December 31, 2018, the investment in PLBRC is presented as part of "assets held-for-sale" and was subsequently sold in 2019 (see Note 33),

The changes in the carrying amounts of are as follows:

<i>(In thousands)</i>	SRS		Pernod	
	2019	2018	2019	2018
Balance at beginning of year	P433,543	P433,543	P -	P -
Acquisition	-	-	126,956	-
Share in net income (loss)	14,043	6,674*	(8,763)	-
Balance at end of year	P447,586	P440,217	P118,193	P -

*Unrecognized share in net income

The information presented below summarizes the financial information of SRS and Pernod and shows the reconciliation of the Group's share in net assets of such investees to the carrying amounts of its investments.

<i>(In thousands)</i>	SRS		Pernod	
	2019	2018	2019	2018
Percentage of ownership	49.34%	49.34%	30%	-
Current assets	P4,816,374	P3,955,182	P823,323	P -
Noncurrent assets	239,124	221,748	193,218	-
Current liabilities	(4,687,331)	(3,825,817)	(627,084)	-
Noncurrent liabilities	(20,524)	(18,405)	(40,382)	-
Net assets	347,643	332,708	349,075	-
Group's share in net assets	171,528	164,159	104,723	-
Goodwill	276,058	276,058	13,470	-
Carrying amount of interest in associates	P447,586	P440,217	P118,193	-
Net sales	P517,583	P7,006,180	P1,339,369	P -
Net income (loss)	28,461	13,526	(29,210)	-
Group's share in net income	P14,043	P6,674	(P8,763)	P -

Investment in Joint Ventures

AyaGold Retailers, Inc.

In 2013, the Group through Entenso partnered with Varejo Corp., an entity engaged in operations of small convenience stores, to incorporate a new company, AyaGold Retailers, Inc. (AyaGold). This is the joint venture vehicle for the investment in and operation of mid-market supermarkets and to pursue other investment opportunities in the Philippine retail sector as may be agreed by both parties. AyaGold was incorporated in the Philippines on July 8, 2013 and started its operation on July 31, 2015 with the opening of its first supermarket called "Merkado" which is located in U.P. Town Center. The second supermarket opened on December 14, 2017.

The Group and its partner each initially invested P60 million or acquired 50% interest in AyaGold by subscribing to 6,000,000 common shares at P1 par value and 54,000,000 redeemable preferred shares at P1 par value. In February 2018, each party invested additional P32.5 million for 32,500,000 common shares at P1.00 par value.

The redeemable preferred shares shall have the following features: voting rights; participating in dividends declaration for common shares and may be entitled to such dividends as may be determined and approved by the Board of Directors; entitled to receive out of the assets of the joint venture available for distribution to the parties, before any distribution of assets is made to holders of common shares, distributions in the amount of the issue value per outstanding redeemable preferred share, plus declared and unpaid dividends to the date of distribution; and redeemable at the option of the joint venture.

The changes in the carrying amount of the investment in AyaGold are as follows:

<i>(In thousands)</i>	2019	2018
Balance at beginning of year	P169,632	P123,005
Additions	-	32,500
Share in net income	5,764	14,127
Balance at end of year	P175,396	P169,632

The following table summarizes the financial information of AyaGold and shows the reconciliation of the Group's share in net assets of such investee to the carrying amount of its investment:

<i>(In thousands)</i>	2019	2018
Percentage of ownership	50%	50%
Current assets	P258,601	P267,156
Noncurrent assets	347,630	199,643
Total liabilities	(396,935)	(135,619)
Net assets	209,296	331,180
Group's share in net assets	104,648	165,590
Adjustments	70,748	4,042
Carrying amount of interest in joint venture	P175,396	P169,632
Net sales	P639,968	P607,392
Net income	11,528	28,255
Group's share in net income	P5,764	P14,127

PG Lawson Company, Inc.

In 2014, the Parent Company partnered with Lawson Asia Pacific Holdings Pte. Ltd. and Lawson, Inc. (Lawson), both engaged in the operation of convenience stores in Japan and other Asian countries, to establish PG Lawson Company, Inc. (PLCI), a joint venture company to operate convenience stores in the Philippines.

In April 2018, the Parent Company sold its entire investment in PLCI for P600 million. This resulted in a P363 million gain from the sale of such investment.

MJVC

MJVC is a 50-50 joint venture between LPC and Total Petroleum Philippines Corporation [now Total (Philippines) Corporation]. MJVC is organized primarily to manage, operate and maintain jetties and equipment installed for its benefit and/or for the benefit of owners/operators of storage facilities for oil products and/or LPG and loading facilities and all related equipment; own, manage, operate, upgrade and maintain ancillary facilities dedicated for the common use by the users of the storage facilities, LPG storage tanks, loading facilities and all related equipment; and perform consultancy, supervision and management services concerning the development and/or redevelopment of jetties and the upgrading of equipment and dedicated ancillary facilities installed.

As of December 31, 2018, the investment in MJVC is presented as part of "assets held-for-sale" and was subsequently sold in 2019 (see Note 33).

11. Property and Equipment

The movements and balances of this account as at and for the years ended December 31 consist of:

<i>(In thousands)</i>	Land	Buildings	Storage Tanks	Furniture and Fixtures	Office and Store Equipment	Transportation Equipment	Leasehold Improvements	Wells, Platforms and Other Facilities	Construction in-progress	Total
Cost										
January 1, 2018	P3,710,269	P10,712,523	P1,574,922	P2,887,686	P8,238,044	P368,717	P9,414,405	P204,955	P1,791,890	P38,903,411
Additions	30,448	244,656	71,901	185,003	974,428	17,602	676,026	-	1,873,760	4,073,824
Reclassifications	369,336	975,122	15,015	35,233	333,286	-	1,053,421	-	(2,391,817)	389,596
Disposals	-	-	(2,665)	(4,274)	(34,802)	(1,081)	(11,374)	-	(35,960)	(90,156)
Assets held for sale	(30,448)	(2,522,877)	(1,153,744)	(71,337)	(508,229)	(138,289)	-	-	(94,034)	(4,518,958)
December 31, 2018	4,079,605	9,409,424	505,429	3,032,311	9,002,727	246,949	11,132,478	204,955	1,143,839	38,757,717
Additions	-	154,562	2,449	273,375	872,186	11,653	483,174	-	2,088,183	3,885,582
Reclassifications	(174,328)	295,504	1,475	64,224	366,999	15,565	1,247,221	-	(1,809,428)	7,232
Disposals	-	-	-	(932)	(178,444)	(813)	(6,947)	-	-	(187,136)
December 31, 2019	3,905,277	9,859,490	509,353	3,368,978	10,063,468	273,354	12,855,926	204,955	1,422,594	42,463,395
Accumulated Depreciation and Amortization										
January 1, 2018	-	3,014,727	567,447	1,411,872	5,049,167	281,898	1,910,680	44,918	-	12,280,709
Depreciation and amortization	-	302,929	74,328	230,380	1,003,551	34,115	567,755	-	-	2,213,058
Disposals	-	-	-	(2,248)	(26,427)	-	(4,904)	-	-	(33,579)
Reclassifications	-	40,303	204	1,832	1,701	711	114	-	-	44,865
Asset held for sale	-	(1,130,339)	(589,322)	(62,015)	(201,081)	(108,372)	-	-	-	(2,091,129)
December 31, 2018	-	2,227,620	52,657	1,579,821	5,826,911	208,352	2,473,645	44,918	-	12,413,924
Depreciation and amortization	-	272,395	13,024	241,944	1,033,456	16,962	600,963	-	-	2,178,744
Disposals	-	-	-	(876)	(53,322)	(813)	(2,215)	-	-	(57,226)
Reclassifications	-	-	-	(1,366)	1,312	-	54	-	-	-
December 31, 2019	-	2,500,015	65,681	1,819,523	6,808,357	224,501	3,072,447	44,918	-	14,535,442
Carrying Amounts										
December 31, 2018	P4,079,605	P7,181,804	P452,772	P1,452,490	P3,175,816	P38,597	P8,658,833	P160,037	P1,143,839	P26,343,793
December 31, 2019	P3,905,277	P7,359,475	P443,672	P1,549,455	P3,255,111	P48,853	P9,783,479	P160,037	P1,422,594	P27,927,953

12. Investment Properties

This account consists of:

<i>(In thousands)</i>	Land	Building	Construction in-Progress	Total
Cost				
January 1, 2018	P6,551,644	P4,632,539	P567,374	P11,751,557
Additions	5,267	498,493	153,628	657,388
Reclassifications	(123,174)	195,422	(461,844)	(389,596)
Assets held-for-sale	(60,989)	(55,551)	-	(116,540)
December 31, 2018	6,372,748	5,270,903	259,158	11,902,809
Additions	249,468	94,490	273,560	617,518
Reclassifications	-	210,575	(413,453)	(202,878)
December 31, 2019	6,622,216	5,575,968	119,265	12,317,449
Accumulated Depreciation				
January 1, 2018	-	997,950	-	997,950
Depreciation	-	121,290	-	121,290
Reclassification	-	(44,865)	-	(44,865)
Assets held-for-sale	-	(8,184)	-	(8,184)
December 31, 2018	-	1,066,191	-	1,066,191
Depreciation	-	125,260	-	125,260
December 31, 2019	-	1,191,451	-	1,191,451
Carrying Amounts				
December 31, 2018	P6,372,748	P4,204,712	P259,158	P10,836,618
December 31, 2019	P6,622,216	P4,384,517	P119,265	P11,125,998

Depreciation expense are charged to cost of rent (see Note 20).

As at December 31, 2019 and 2018, the fair value of the investment properties amounted to P23.5 billion based on independent appraisals obtained in 2012. The fair value of the land and buildings is determined based on the comparative sales of similar or substitute properties and related market data and is based on current cost and comparison with similar new properties, respectively, which is categorized as Level 3 under the fair value hierarchy. Management believes that the appraisal in 2012 is still relevant for disclosure purposes as at December 31, 2019 as there are no significant changes in the condition of its land and buildings.

The rental income earned by the real estate and property leasing segment of the Group from these properties amounted to P1.5 billion, P1.4 billion and P1.3 billion in 2019, 2018 and 2017, respectively (see Note 29).

Direct costs incurred pertaining to the lease of these properties amounted to P660.8 million, P627.6 billion and P571.4 million in 2019, 2018 and 2017, respectively (see Note 20).

13. Goodwill and Other Intangibles

This account consists of:

<i>(In thousands)</i>	2019	2018
Goodwill	P16,253,526	P16,253,526
Trademark	3,709,661	3,709,661
Customer relationships	889,453	889,453
Computer software and licenses - net	185,962	187,980
Leasehold rights	51,115	54,882
	P21,089,717	P21,095,502

Goodwill

Goodwill acquired in business combinations represents the excess of the purchase price over the fair value of net identifiable assets of acquired entities which represent the separate CGUs expected to benefit from that business combination. The details are as follows:

<i>(In thousands)</i>	2019	2018
Retail		
KMC	P12,079,474	P12,079,474
Budgetlane Supermarkets	837,974	837,974
Gant	742,341	742,341
NE Supermarkets	685,904	685,904
Company E	358,152	358,152
B&W Supermart	187,204	187,204
PJSI	11,374	11,374
Specialty Retail		
OWI	893,790	893,790
CHC	9	9
Real Estate and Property Leasing		
NPSCC	457,304	457,304
	P16,253,526	P16,253,526

Other Intangibles with Indefinite Lives

Trademarks and customer relationships acquired through a business combination represent the fair value at the date of acquisition of Kareila, which is the CGU for these intangibles.

CGUs to which goodwill and other intangibles with indefinite lives have been allocated are tested for impairment annually or more frequently if there are indications that a particular CGU might be impaired. Upon adoption of PFRS 16, the carrying values of the CGUs tested for impairment include their right-of-use assets and associated lease liabilities. Cash flow projections used in determining recoverable amounts include the lease payments in both the explicit forecast period and in terminal value. The recoverable amounts for the CGUs have been determined based on value in use.

VIU

Value in use is determined using discounted cash flow projections that generally cover a period of five years and are based on the financial plans approved by the Group's management. The key assumptions for the value-in-use calculations relate to the weighted average cost of capital (discount rate), sales growth, operating margin and growth rate (terminal value). The discount rates reflect the key assumptions used in the cash flow projections. The pre-tax discount rates ranged between 9.1% and 12.2% in 2019 and 13% to 14% in 2018. The sales growth rates and operating margins used to estimate future performance are based on past performance and experience of growth rates and operating margins achievable in the Group's markets. The average annual compound sales growth rates applied in the projected periods ranged between 5% and 22% for the CGUs. The average operating margins applied in the projected periods ranged between 1.3% and 7.9% for the CGUs. The terminal value to extrapolate cash flows beyond the explicit forecast period ranged between 2.9% and 5% for the CGUs.

Key assumptions relating to CGUs to which a significant amount of goodwill or intangible assets with indefinite useful lives is allocated are as follows:

	Pre-tax Discount Rate		Growth Rate (Terminal Value)	
	2019	2018	2019	2018
Kareila	11.00%	13.30%	2.90%	3.30%
Budgetlane Supermarkets	11.00%	13.10%	2.90%	3.30%
Gant	10.90%	13.60%	2.90%	3.30%
DCI and FLSTCI	10.60%	13.60%	2.90%	3.30%
OWI	10.90%	13.60%	2.90%	3.30%
NPSCC	12.20%	14.00%	2.90%	3.30%

As at December 31, 2019, management assessed that a reasonably possible change in key assumptions of B&W Supermart would result in the headroom being reduced to nil if either of the following change occurs: discount rate increased by 0.3% or growth rate decreased by 1%.

Computer Software and Licenses

The movements in computer software and licenses are as follows:

<i>(In thousands)</i>	Computer Software and Licenses	Leasehold Rights
Cost		
January 1, 2018	P376,796	P75,355
Additions	41,705	-
Adjustment	(216)	-
Reclassification to assets classified as held-for-sale	(33,952)	-
December 31, 2018	384,333	75,355
Additions	41,305	-
Adjustments	(504)	-
December 31, 2019	425,134	75,355
Accumulated Amortization		
January 1, 2018	188,181	16,706
Amortization	37,392	3,767
Reclassification to assets classified as held-for-sale	(29,220)	-
December 31, 2018	196,353	20,473
Amortization	42,819	3,767
December 31, 2019	239,172	24,240
Carrying Amounts		
December 31, 2018	P187,980	P54,882
December 31, 2019	P185,962	P51,115

Leasehold Rights

On January 25, 2013, the Parent Company entered into a memorandum of agreement with various parties that paved the way for the acquisition of five stores previously owned and operated by the parties. Under the agreement, the parties agreed to sell to the Parent Company all merchandise inventories, equipment, furniture and fixtures as well as granting of rights to lease the buildings owned by parties for a period of 20 years. As a result of the transaction, the Parent Company recognized the excess of the purchase price over the fair value of tangible assets acquired as leasehold rights, which is amortized on a straight-line basis over the lease term.

14. Deferred Oil and Mineral Exploration Costs

This account consists of:

<i>(In thousands)</i>	<i>Note</i>	Participating Interest	2019	2018
I. Oil exploration costs:				
SC 14	<i>a</i>			
Block C2 (West Linapacan)		6.12%	P55,753	P55,347
Block D		5.84%	8,113	8,071
Block B1 (North Matinloc)		13.55%	4,192	2
			68,058	63,420
SC 6A	<i>b</i>	1.67%		
Octon Block			17,415	17,355
North Block			627	600
SC 6B (Bonita)	<i>d</i>	8.18%	8,027	8,027
			26,069	25,982
SC 51	<i>c</i>		32,817	32,817
Other oil projects			527	527
			33,344	33,344
			127,471	122,746
Allowance for impairment loss			(127,471)	-
Balance at end of year			-	122,746
II. Mineral exploration costs:				
Nickel project	<i>e, f</i>	100.00%	P19,208	P19,208
Anoling gold project	<i>g</i>	3.00%	13,817	13,817
Gold projects	<i>h</i>	100.00%	13,036	13,036
Cement project	<i>i</i>	100.00%	9,603	9,603
Other mineral projects	<i>j, k</i>		382	382
			56,046	56,046
Accumulated impairment losses			(56,046)	(56,046)
Balance at end of year			-	-
I. Other deferred charges			619	619
Allowance for impairment loss			(619)	-
Balance at year end			-	619
			P -	P123,365

On July 2, 2015, the Department of Energy (DOE) approved the transfer of all participating interest of the Parent Company in its various petroleum service contracts in the Philippines to APMC. APMC hereby assumes the responsibility and work commitments on the service contracts.

All deferred oil and mineral exploration costs are classified as intangible assets on the basis that these costs are recognized in respect of licenses and surveys. These costs were incurred in developing an intangible asset. Oil and mineral explorations are governed by permits issued by the Philippine Government either through DOE under SC or by DENR under Exploration Permit (EP) or MPSA.

As at December 31, 2019, management assessed that the deferred oil and mineral exploration costs are impaired given the final plug and abandonment of nine production wells for SC 14 and lack of significant progress on the remaining projects. The Group recognized a full impairment loss of P128.1 million.

a) SC 14 Gabon - Etame, Offshore Gabon, West Africa

On February 23, 2001, Cosco executed Heads of Agreement (HOA) and Deed of Assignment with Sojitz Etame, Ltd. (formerly Nissho Iwai Corporation of Japan) for its 2.625% interest in Etame oil field in Gabon, West Africa. The agreements provide that payment of capped amount of US\$1,000,000 conditioned on production out of revenue derived from the assigned Participating Interest (2.428%) of 15% of Profit Oil [as defined in the Joint Operating Agreement (JOA)], payable quarterly and in accordance with the following:

- (i) should the amount of proved recoverable reserves as submitted in the Development Plan by the Operator be less than 65 million barrels in the Etame Exploration Blocks, Buyer shall pay US\$800,000; and
- (ii) should the oil reserves be greater than 65 million barrels, Buyer shall pay an additional amount of US\$200,000.

As at December 31, 2011, the Parent Company already received US\$800,000 (peso equivalent: P35.1 million) as proceeds on production of 65 million barrels.

The Parent Company is still seeking the additional US\$200,000 (peso equivalent: P8.8 million) as stated in provision (ii) of the above agreement for the computed oil reserves in excess of 65 million barrels as at December 31, 2012.

In 2019, Philodrill is in the early stages of negotiation with a UK-based firm which intends to acquire interests in the SC14 C2-West Linapacan Block. The area is part of the ongoing seismic reprocessing and Quantitative Interpretation (QI) works over contiguous areas in SC 14 C2 and SC 74 that cover the West Linapacan and Linapacan discoveries. The Joint Quantitative Interpretation (QI) study on the Linapacan (SC 74) and West Linapacan (SC 14 C2) was officially commenced on the 4th week of April 2019, with IKON Science as the selected service provider. The project involves joint QI work on a 400 sq km reprocessed PSDM seismic data volume covering the West Linapacan A and B in SC 14 and the Linapacan A and B SC 74. As of end-June 2019, the Phase 1a of the study has been completed and the 2 Joint Venture consortia are now discussing on proceeding to the next phase of the Joint QI work which will involve trial inversion work on 30 sq km data volume of contiguous areas.

Meanwhile, Philodrill implemented the final plug and abandonment (P&A) of nine production wells in the Nido, Matinloc and North Matinloc fields immediately after these fields finally ceased production in early 2019. Using the workboat MV ENA Habitat, Philodrill successfully completed P&A works on seven wells (Matinloc-1,-2,-3, Nido B-1, -2, -3, and North Matinloc-2) from March 30 to May 21, 2019. The completion of the P&A of the remaining wells (Nido A-1 and A-2) was deferred for a separate campaign in April 2020.

In 2019 and 2018, additional deferred charges amounting to P4.64 million and P0.32 million, respectively, were capitalized.

b) SC 6A (Octon and North Block) - Offshore Northwest Palawan Philippines

The SC 6A oil field, discovered in 1990, is located in Offshore Northwest Palawan near Galoc Block. This oil field was not put into production due to low oil price in 1990 and also due to limited data. As at December 31, 2019, the Group has participating interest of 1.67%.

The impending expiry of SC 6A-Octon Block was finally resolved in a DOE letter on June 18, 2009. The letter informed the Operator, Philodrill,(PLL) of the 15-year contract extension of the SC Octon Block subject to some terms and conditions.

On December 8, 2011, the DOE approved the transfer of Filipino Consortium's 70% undivided interest to PLL. DOE has also approved the appointment of PLL as the Operator in accordance with the Deed of Assignment and Assumption dated July 1, 2011.

The work commitments approved by the DOE for 2012 include the seismic acquisition, processing and interpretation of 500 square kilometers of 3D data area in Octon. The Group for its part will be carried free up to the drilling of the two exploration wells on the block.

In 2013, the 3D seismic acquisition has been completed and the data is now in Vietnam for data processing and interpretation. Oil reserves have already been determined and would be further refined and fine-tuned by the complete seismic acquisition.

In 2019 and 2018 additional deferred charges amounting to P0.1 million each were capitalized.

c) SC 51 - East Visayan Basin

The contract area is defined by two (2) separate blocks, namely (1) an on shore-off shore block over Northwest Leyte and (2) a deepwater block in the Cebu Strait. The Parent Company together with other members of the SC 51 Consortium, assigned their collective 80% interest to NorAsian Energy Limited (NorAsian) in consideration for the latter to conduct and finance the seismic survey and drill one well.

In a DOE letter dated June 20, 2009, DOE informed the Operator NorAsian that Executive Order No. 10 dated May 29, 2009 has been issued by the Cebu Provincial Governor which effectively lifts the Cease and Desist Order along the municipal waters of Argao, Sibonga and Cebu.

In line with this, DOE instructs NorAsian to resume petroleum exploration activities in the service contract area.

In July 2011, NorAsian has executed a farm-out of its SC-51 participating interest to Swan Oil and Gas (SWAN). The agreement has been approved by the SC51 Joint Venture Partners and the DOE. In the Consortium meeting on October 27, 2011, NorAsian informed the partners that DOE has accepted DUHAT-1 as compliance of its 3rd Sub-Phase work program. DOE has also approved the 100 kilometers of 2D seismic data acquisition in on-shore Leyte as its commitment for the 4th Sub-Phase work program rather than drill another well onshore.

NorAsian has elected to discontinue its participation in the South block and with the drilling of Argao prospect. NorAsian will give to SWAN all of its 80% participating interest and its operatorship in the Southern block. NorAsian will still retain a 40% working interest in the Northern block and the remaining 40% to SWAN.

Relative thereto, SWAN has requested the Filipino partners to approve the revised Farm-in agreement. The Farm-in agreement revisions was approved subsequently but remained unexecuted as at December 31, 2011.

In the first half of 2012, after trying to raise funds for its committed drilling program, SWAN was unable to show proof of its financial capability and its commitment to drill the Argao structure in due time as per provisions of the amended Farm-In Agreement. The Filipino partners in the South Block declared SWAN in default of its Farm-In Agreement commitments. Otto Energy (Otto) also declared SWAN in default of its JOA commitments in the North Block. SWAN contested the default but later settled amicably in September 2012, after it was able to secure a reasonable walk-away package from Otto.

After SWAN's exit from the SC-51 contract area, Frontier Oil Corporation (Frontier) manifested its interest to become Operator of SC-51 South Block and has agreed to the key terms of the proposed Farm-In Agreement. Frontier Oil was still within its requested due diligence period when the year ended. A third party, Arax Energy, was commissioned by Frontier to conduct due diligence study of the block. Frontier requested for an extension until January 31, 2013 before it decides on its option.

On July 2012, 102 line kilometers of seismic lines were completed by the seismic survey party in the North Block. The Seismic survey was completed under budget despite a month-long cessation of operation due to the military stand-off between China and the Philippines at the Scarborough Shoals. Initially-processed seismic lines disclosed very promising seismic features and more enhanced drilling target. The confidence of optimally locating the proposed Duhat-2 is now much higher.

Otto informed that its Board has already approved the drilling budget of \$6,600,000 for next year's drilling program which is likely to occur during third quarter of 2013. A much larger rig is being sought for the drilling Duhat 2 to avoid the problem in Duhat 1/1A. So far, two serious drilling outfits heeded the call for rig by Otto.

In 2013, Otto Energy, despite its two failed wells, has declared a mean probable reserve of more than 20MBO.

As at December 31, 2019 and 2018, there were no further developments on the said project.

d) SC 6B (Bonita) - Offshore Northwest Palawan, Philippines

The SC 6B Bonita oil field is located in Offshore Northwest Palawan adjacent to Matinloc. Currently, Venture Oil is evaluating the area for development. On October 28, 2011, Peak Oil and Gas Philippines Ltd, Blade Petroleum Philippines Ltd, and Venture Oil Philippines Inc signed a Farm-In agreement with SC-6B joint venture partners to acquire 70% of the consortium's aggregate participating interests. After executing the Deed of Assignment and Assumption of Interest, the Parent Company as at December 31, 2011 has a residual participating interest of 2.11% from the original 7.03% after the farm-out.

The impending expiry of SC 6B-Bonita Block was also resolved in a DOE letter of June 17, 2009. The letter informed the Operator, Philodrill, of the 15-year contract extension of the SC Bonita Block subject to terms and conditions.

In 2012, DOE approved the amendments to the Farm-In agreement between the Filipino farmers and the Group of Operators. The Operators proposed to conduct a simultaneous study of Bonita with Cadlao. The \$200,000 approved budget will be shared halfway. However, the Group of Operators failed to submit the financial documents required by the DOE which would prove that it has the financial capability to implement the work programs.

During the last quarter of 2012, Philodrill, as previous operator of Bonita, served notice to the current Group of Operators that the farmers are cancelling the farm-in agreement.

As at December 31, 2019, there were no further developments on the said project.

- e) Exploration Permit Application No. 175-IVB - Nickel Project Aborlan, Palawan
An Order of Denial has been issued by MGB-IVB during the last quarter of 2010 due to inactivity and lack of NCIP clearance among others. The Parent Company submitted a letter of reconsideration and MGB-IVB granted a temporary reprieve in order for the Parent Company to show commitment in completing the application.

The Parent Company submitted the same letter of reprieve to NCIP Region IV so the latter can facilitate the reactivation of the Parent Company's request of NCIP clearance.

As at December 31, 2012, the appeal for reconsideration remained at the MGB Central Office in Quezon City awaiting for the deliberation and resolution.

In December 2013, the application permit remained languishing at the MGB Central under appeal for reinstatement. However the recent turn of events in Palawan brought about by the assigning of EO-79, which categorized Palawan as a No-Go Zone for mining, has forced the Parent Company to accept the previous cancellation and withdraw its appeal for reinstatement.

As at December 31, 2019 and 2018, there were no further developments on the said project.

- f) Exploration Permit Application No. 196-IVB - Nickel Project Rizal, Palawan
The declaration of Mount Mantalingaan as Palawan Protected Landscape gravely affected the surface extent of the applied area. From the original area of 2,477 hectares the net free area has been reduced to a mere 396 hectares or 15% of the original applied area.

On October 12, 2011, the Parent Company received the Notice of Denial for further processing of its exploration permit application. With the current anti-mining sentiments in Palawan, the Parent Company has decided to forgo any appeal for reinstatement.

In December 2013, this has been cancelled several years back due to the inclusion of its most potential areas in the recently declared Mt. Mantalingaan National Park in Southern Palawan. This forced the Parent Company to accept the cancellation notice without any qualms, after filing two motions for reconsideration.

As at December 31, 2019 and 2018, there were no further developments on the said project.

g) MPSA Application No. 039-XIII - Gold Project Anoling, Agusan Del Sur

The project, located in Agusan del Sur, has an area of 204 hectares. In November 2005, the Parent Company executed a Mines Operating Agreement (MOA) with Phsamed Mining Corporation (PHSAMED) whereby the latter assumes operatorship of the Anoling Project, including, among others, all rights, duties and obligations of the Parent Company as previous operator of the Anoling Project. In return, PHSAMED seeks the approval of MPSA and complies with all the work obligation on the area. Moreover, the Parent Company receives 3% royalty and 10% net profit interest share before income tax, depreciation and amortization of up to P11 million. The agreement has an initial term of ten (10) years.

PHSAMED, with the assistance of the Parent Company, is pursuing the final approval of the MPSA. Additional documentary requirements were submitted to MGB-Caraga in Surigao City. All mining operations remained suspended as at December 31, 2012 until final approval of MPSA.

In 2012, the Parent Company received a formal notice from the project operator that they are no longer pursuing the project development program of Anoling Gold Mine.

The Parent Company has assumed operatorship of the project once again and currently securing all the mine tunnels and assets left behind by the project operator. The Parent Company is also securing all technical data and reports that the project operator acquired during their seven years of operatorship.

The return of the unapproved tenements was completed in 2013 and Bernster has already acknowledged receipt of the MOA termination in their reply letter. The MPSA application is still held-up at the sala of the Mines Adjudication Board but Bernster has to pursue the approval themselves.

As at December 31, 2019 and 2018, there were no further developments on the said project.

h) Exploration Permit Application No. 080 - Gold Project, Tinongdan Itogon, Benguet

As at December 31, 2012, all field activities and IP negotiations are suspended. The Parent Company is currently finding a solution to move the project forward and convince the big land owners to give their consent and complete the FPIC process. A final appeal for reinstatement has been lodged before the MGB Central office.

In 2013, due to the continued non-consent vote from the indigenous people in the area, it was deemed justified to withdraw the appeal for reinstatement.

As at December 31, 2019 and 2018, there were no further developments on the said project.

i) MPSA No. 066-97-VIII - Cement Project, Isabel, Merida, Leyte

The MPSA was assigned last June 1997 and calls for the extraction of limestone as raw material for the manufacture of cement. The assignment is for 25 years with an option to extend for another 25 years.

On March 4, 2003, the DENR granted the Parent Company's application for a 2-year exploration period in its Cement Leyte Project which ended on March 14, 2005.

On September 9, 2011, the Parent Company received the approval for the second extension of the MPSA Exploration. The approved exploration and environmental work programs shall end with the Declaration Mining Project Feasibility in September 2013 or earlier.

The Parent Company, as part of new requirements, is required to conduct a new round of Information, Education and Communication (IEC) before implementing the exploration surveys. The Parent Company has also committed to participate in the National Greening Program initiated by the President.

For the first half of 2012, the Parent Company continued in preparation to conduct a new IEC campaign for the drilling operation it committed to conduct in the contract area within the 2-year extension of the MPSA exploration period.

In 2013, the project was considered delinquent and may soon be cancelled by the regional mining office.

In 2016, the Group paid occupation amounting to P0.5 million for the project.

As at December 31, 2019, there were no further developments on the said project.

j) Exploration Permit Application No. 009-2010-V - Copper Gold Project, Oas, Albay

The Exploration Permit Application EXPA-000072-V has been signed and approved on May 5, 2010 at the Central office of the Mines and Geosciences Bureau in Quezon City and registered with the Mines Geosciences Bureau Regional Office No. 5 in Legaspi City on May 12, 2010 as EP-009-2010-V.

On May 17, 2011, the Parent Company signed a MOA with Bentley Fairview Resources Corporation after Bentley decided to exercise its option upon expiration of the Option and Due Diligence Agreement last May 1, 2011.

In August 2011, the Parent Company and Bentley have completed the IEC campaign. Bentley advised that ground activities will commence in the middle of January 2012. Their schedules were set back by bad weather and shortage of technical personnel.

During the first quarter of 2012, a 3-year MOA between the Parent Company and Barangay Maramba was signed and executed in compliance and fulfillment of the Parent Company's commitments with the National Greening Program (NGP). Bentley, as project operator and in pursuance to the mines operating agreement with the Parent Company, will finance the reforestation of a 6-hectare area in Maramba and Barangay Maramba will be the implementing partner of the NGP MOA. A 3-year financial plan has been crafted for that matter.

In 2012, the implementation of signed NGP-MOA between the Parent Company and Barangay Maramba was completed. A total of 2,500 mahogany seedlings were planted in the area located within the jurisdiction of Barangay Maramba, Oas, Albay. The tree-planting site has been inspected by representative of the MGB.

As at December 31, 2012, the Parent Company submitted its application for the renewal of the exploration permit and waits for the renewal of the exploration permit.

In 2013, the documents for the relinquishment of the tenements have been prepared. The EP was renewed but the claim perfection remained incomplete due to non-payment of the mining occupation fees. The Parent Company has already made several postponements of inspection trips by MGB-5 to the project site.

The Parent Company has not implemented its mandatory community development program. It has stalled the implementation of the tree-planting program and has not undertaken the environmental baseline survey. Commitments are piling up after the pull out of Bentley and the Parent Company has suspended all compliance activities on the area.

In 2013, the EP is now delinquent in status and the continued delinquency is decreasing the value of the project.

As at December 31, 2019 and 201, there were no further developments on the said project.

k) Exploration Permit No. 000071 - Copper Project, Concepcion, Iloilo

On June 22, 2010, the exploration permit application was registered and approved by the regional office of MGB-6 in Iloilo City. All surface activities remained suspended. The Parent Company is currently preparing the budget for work programs and IEC presentations for approval by the BOD.

The Parent Company has completed its Project IEC campaign before all concerned and affected Local Government Units in Concepcion and Iloilo.

MGB-6 now requires the Parent Company to secure Affidavit of Consents from the private landowners. The Parent Company complied with the MGB guidelines.

As at December 31, 2012, the Parent Company completed its documentary submissions with respect to its application for the renewal of the exploration permit. The Parent Company is patiently waiting for the renewal of the exploration permit so that it can implement the other peripheral requirements of the CDP, NGP and geohazard mapping.

In December 2013, the signing of the Option to Purchase agreement with Vale Exploration, Philippines (Vale) has been completed.

On January 13, 2014, Vale took over of the project Operation. The US\$20,000 cash consideration was paid to the Parent Company on January 23, 2014. If the surface exploration activities confirmed the expected results, Vale has the option to exercise immediately the purchase of the mineral rights from the Parent Company at the cost of US\$1.25 million. Vale would still pay the US\$ 30,000 regardless of the early exercise of the purchase option. The Parent Company's residual 1.35% share on the net smelter return will only kick in when production has been realized. The Parent Company will be carried free in all exploration activities even in the event of confirmatory drilling operations in the later stages.

As at December 31, 2019 and 2018, there were no further developments on the said project.

15. Other Noncurrent Assets

This account consists of:

<i>(In thousands)</i>	2019	2018, (Restated)
Security deposits	P2,231,789	P2,158,828
Deferred input VAT - net of current portion	487,003	400,121
Advances to contractors	290,709	313,180
Accrued rent income	275,949	105,058
Prepaid rent	3,274	5,189
Security deposits	11,065	4,836
	P3,299,789	P2,987,212

Security deposits consist of payments for leases that are refundable at the end of the lease term.

Advances to contractors pertain to payments made in advance for the construction of new stores

16. Accounts Payable and Accrued Expenses

This account consists of:

<i>(In thousands)</i>	Note	2019	2018, (Restated)
Trade payables		P9,087,869	P9,811,921
Non-trade payables		2,342,807	1,205,116
Dividends payable	28	1,356,031	-
Due to government agencies		744,875	620,671
Construction bonds		22,684	20,541
Advance rentals		14,089	11,753
Retention payable		5,181	73
Accrued expenses			
Manpower agency services		977,613	909,613
Utilities		293,390	200,381
Rent		77,435	62,244
Others		206,007	173,853
		P15,127,981	P13,016,166

Trade payables generally on a 30-to-60-day payment terms.

Non-trade payables consist of claims arising from billed expenditures in relation to operations other than purchases of goods such as fixed asset acquisitions and stores under construction.

17. Loans Payable

As at December 31, 2019 and 2018, the Group has the following outstanding loans:

a. Short-term Loans

Details of short-term loans follow:

<i>(In thousands)</i>	2019	2018
Balance at beginning of year	P4,866,300	P5,562,500
Availments	642,855	10,220,000
Repayments	(4,638,031)	(10,916,200)
Balance at end of year	P871,124	P4,866,300

The balances of peso-denominated short-term loans of each segment as at December 31 follow *(in thousands)*:

Segment	Purpose(s)	Interests	2019	2018
Liquor distribution	- Inventory financing	3.57% to 5.63%	P729,000	P710,000
Real estate	- Capital expenditure requirements	2.88% to 5.25%	140,554	300,000
Grocery retail	- Inventory financing	4.00% to 6.40%	1,570	3,856,300
	- Working capital requirements			
			P871,124	P4,866,300

b. Long-term Loans

Details of long-term loans follow:

<i>(In thousands)</i>	2019	2018
Balance at beginning of year	P6,622,208	P7,225,612
Repayments	(1,488,429)	(610,000)
Amortization of debt issue cost	4,483	6,596
	5,138,262	6,622,208
Less current portion	43,685	49,999
	P5,094,577	P6,572,209

The balance of long-term loans of the Parent Company and subsidiaries follow:

<i>(In thousands)</i>	Note	2019	2018
Cosco:			
Fixed-rate peso-denominated loan of 5.267%	a	P3,792,563	P3,827,355
Fixed-rate peso-denominated loan of 5.579%	a	945,699	954,853
PPCI:			
Fixed-rate peso-denominated note of 6.40%	b	-	1,440,000
KMC			
Fixed-rate peso-denominated loan of 3.50%	c	400,000	400,000
		5,138,262	6,622,208
Less current portion		43,685	49,999
		P5,094,577	P6,572,209

a. *Cosco*

On May 6, 2014, Cosco signed and executed a P5.0 billion corporate financing facility. The proceeds were used to finance the Group's strategic acquisition plans and/or for other general corporate requirements. Subsequently, Cosco issued the following:

- 7-year, unsecured, peso-denominated loan with a consortium of six (6) local banks for P4.0 billion. The loan bears an annual interest based on PDST-F plus spread of 100-150 bps. The repayment of the loan shall be made based on the following schedule: 1.0% of the principal amount on the first anniversary after Issue Date and every anniversary until the sixth anniversary; and 94.0% of the principal amount on maturity date.
- 10-year, unsecured, peso-denominated loan with a consortium of two (2) local banks for P1.0 billion. The loan bears an annual interest based on PDST-F plus spread of 100-150 bps. The repayment of the loan shall be made based on the following schedule: 1.0% of the principal amount on the first anniversary after Issue Date and every anniversary until the ninth anniversary; and 91.0% of the principal amount on maturity date.

These loan agreements contain, among others, covenants relating to merger and consolidation, maintenance of certain financial ratios, working capital requirements, restrictions on guarantees, and payments of dividends.

As of December 31, 2019 and 2018, Cosco is compliant with the loan covenants.

b. *PPCI*

On June 13, 2013, the PPCI obtained a P2 billion unsecured loan from a local bank, which is payable on May 21, 2018 and bears interest at 3.50% per annum. The interest is due every month.

On May 2, 2018, the PPCI partially paid the loan amounting to P660 million and the maturity for the outstanding balance of P1.4 billion was renewed for 7 years at 6.4% interest per annum.

In 2019, the PPCI fully paid the remaining balance.

c. *KMC*

On July 23, 2013, KMC obtained a P500 million unsecured loan from a local bank. The loan is payable after 5 years and bears interest at 3.50% per annum. The interest is due every month.

In 2015, KMC partially paid the loan amounting to P100 million.

On May 2, 2018, the maturity for the outstanding balance of P400 million was renewed for 7 years at 6.4% interest rate per annum.

The loan is not subject any covenants.

Total interest expense charged to profit or loss amounted to P403 million, P468.8 million and P406.4 million in 2019, 2018 and 2017, respectively.

Interest expense capitalized amounted to P12 million, P81.7 million and P91.5 million in 2019, 2018 and 2017, respectively (see Notes 13 and 14). Capitalization rate is 4%, 2% and 1% in 2019, 2018 and 2017, respectively.

18. Other Current Liabilities

This account as at December 31 consists of:

<i>(In thousands)</i>	<i>Note</i>	2019	2018, (Restated)
Customers' deposits	21, 31, 32	P351,510	P248,327
Unredeemed gift certificates		157,477	127,912
Output VAT		78,225	40,659
Promotional discount		1,934	1,835
Others	31, 32	7,846	16,168
		P596,992	P434,901

Customers' deposits consist of payments from the lessees that are refundable at the end of the lease term. These are intended to answer for any unpaid obligations of the lessee to the Group including damages to the leased properties.

Unredeemed gift certificates represent members' claims for issued yet unused gift certificates. These will be closed to sales account upon redemption and are due and demandable anytime.

Contract Liabilities

The Group identified its unredeemed gift certificates as contract liabilities as of December 31, 2019 and 2018. These represent the Group's obligation to provide goods or services to the customers for which the Group has received consideration from the customers.

Below is the rollforward of contract liabilities:

<i>(In thousands)</i>	2019	2018
January 1	P127,912	P125,631
Add receipts	481,759	476,041
Less sales recognized	452,194	473,760
December 31	P157,477	P127,912

19. Revenues

The revenue from contracts with customers is disaggregated by revenue stream.

<i>(In thousands)</i>	2019	2018	2017
Revenue from Contracts with Customers (PFRS 15)			
<i>Revenues</i>			
Grocery	P154,490,309	P141,139,261	P124,703,433
Wine and liquor	7,630,100	6,514,654	4,694,538
Office and technology supplies	2,447,877	2,086,043	1,820,605
LPG	-	17,090,511	13,128,497
Production lifting	-	-	528
<i>Other revenue</i>			
Concession fee income	2,056,097	1,878,359	1,647,845
Membership income	572,714	513,589	452,974
Commission income	20,524	53,674	68,592
Miscellaneous	149,576	141,892	202,784
	167,367,197	169,417,983	146,719,796
Lease revenue (PFRS 16)			
<i>Revenues</i>			
Real estate and property leasing	1,498,426	1,379,888	1,291,199
<i>Other revenue</i>			
Retail (<i>Other revenue</i>)	463,942	407,251	388,645
	1,962,368	1,787,139	1,679,844
	P169,159,465	P171,009,556	P148,128,264

20. Cost of Revenues

Cost of goods sold consists of:

<i>(In thousands)</i>	2019	2018, (Restated)	2017, (Restated)
Beginning inventory	P23,931,657	P21,194,691	P19,792,366
Purchases	136,307,493	141,390,253	120,527,031
Other direct costs	-	528,725	564,930
Total goods available for sale	160,239,150	163,113,669	140,884,327
Ending inventory	24,722,271	23,931,657	21,194,691
	P135,516,879	P139,182,012	P119,689,636

Cost of rent consists of:

<i>(In thousands)</i>	2019	2018, (Restated)	2017, (Restated)
Depreciation	P231,171	P224,109	P202,537
Security services	101,594	80,947	83,439
Taxes and licenses	88,537	86,559	84,326
Repairs and maintenance	61,608	56,505	48,977
Janitorial services	59,172	56,205	49,469
Management fees	35,480	40,968	29,568
Utilities	31,112	32,782	27,310
Salaries and wages	21,062	19,927	18,035
Insurance	17,347	19,052	18,104
Rentals	5,950	5,185	3,958
Amusement tax	1,547	2,052	1,970
Retirement benefit cost	515	374	664
Others	5,693	2,942	2,998
	P660,788	P627,607	P571,355

21. Leases

As Lessee

The Group leases parcels of land, stores, warehouses, distribution centers, and parking spaces. The lease terms range from 5 years to 42 years, which are generally renewable based on certain terms and conditions. Rental payments are fixed monthly or per square meter subject to 1%-10% escalation or percentage of store sales, whichever is higher. Variable lease payments that depend on sales are recognized in profit or loss in the period in which the condition that triggers those payments occurs.

The movements in right-of-use assets are as follows:

<i>(In thousands)</i>	2019	2018 (Restated)
Cost		
Balance at January 1	P26,781,994	P23,701,690
Additions	3,331,079	3,457,792
Modifications	(10,498)	(29,197)
Terminations	(163,202)	(159,904)
End of lease term	(467,133)	(188,387)
Balance at December 31	29,472,240	26,781,994
Accumulated Depreciation		
Balance, January 1	6,699,568	5,537,329
Depreciation	1,591,374	1,424,981
Terminations	(51,672)	(74,355)
End of lease term	(467,133)	(188,387)
Balance, December 31	7,772,137	6,699,568
Carrying amount at December 31	P21,700,103	P20,082,426

For the restatement of balances following the adoption of PFRS 16, see Note 35. The right-of-use assets mainly pertain to leases of stores and also include leases of parcels of land, warehouses, distribution centers and parking spaces.

Lease liabilities included in the statements of financial position are as follows:

<i>(In thousands)</i>	2019	2018, (Restated)
Due within one year	P567,682	P725,846
Due beyond one year	26,101,259	23,496,627
	P26,668,941	P24,222,473

The movements in lease liabilities are as follows:

<i>(In thousands)</i>	<i>Note</i>	2019	2018, (Restated)
January 1	27, 28	P24,222,473	P21,549,720
Additions		3,178,512	3,354,180
Accretion of interest		1,673,636	1,454,112
Repayments		(2,241,191)	(1,982,941)
Terminations		(153,990)	(123,400)
Modifications		(10,499)	(29,198)
December 31		P26,668,941	P24,222,473

Shown below is the maturity analysis of the undiscounted lease payments for the years ended December 31:

<i>(In thousands)</i>	2019	2018 (Restated)	2017 (Restated)
Less than one year	P2,031,482	P1,798,795	P1,572,528
One to five years	8,316,198	7,674,796	6,925,757
More than five years	31,769,098	29,427,442	25,230,655
	P42,116,778	P38,901,033	P33,728,940

The following are the amounts recognized in profit or loss:

<i>(In thousands)</i>	2019	2018, (Restated)	2017, (Restated)
Variable lease payments not included in the measurement of lease liabilities*	P708,336	P776,864	P843,498
Expenses related to leases of low-value assets	44,724	30,245	39,514
Expenses related to short-term leases	10,111	60,600	59,026
Total rent expense	763,171	867,709	942,038
Interest accretion on lease liabilities	1,673,636	1,454,112	1,292,684
Depreciation charge for right-of-use assets	1,072,569	1,162,239	1,058,245
Gain from lease terminations	42,460	37,850	15,174

*This includes the concession fee expense presented as separate line item under "Operating expenses" in the statements of income.

Low-value assets pertain mainly to credit card terminals, G4s cash solutions technology and office spaces.

The total cash outflow for leases amounted to P3.0 billion, P2.9 billion and P2.6 billion in 2019, 2018, and 2017, respectively.

As Lessor

The Group leases out its investment properties to various lessees. These non-cancellable leases have lease terms of up to twenty-five (25) years. Some of the leases include a clause to enable upward revision of the rental charge on an annual basis based on prevailing market conditions.

The lease agreements, among others, include customers' deposits. These deposits shall answer for any unpaid obligations of the lessee to the Group including damages to the leased properties. Customers' deposits, which are carried at amortized cost, are non-interest bearing and refundable upon termination of the lease agreement, provided that there are no outstanding charges against the tenant. Customers' deposits amounted to P262 63 million and P318.12 million as at December 31, 2019 and 2018. These are included under "Other noncurrent liabilities" account in the consolidated statements of financial position.

Customers' deposits are recognized initially at fair value and subsequently carried at amortized cost. The fair values of customers' deposits are determined using risk-free interest rates. These are amortized on a straight-line basis.

Rent income recognized as part of "Revenues" account in profit or loss amounted to P1.5 billion, P1.4 billion and P1.3 billion in 2019, 2018 and 2017, respectively.

The scheduled maturities of non-cancellable minimum future rental collections are as follows:

<i>(In thousands)</i>	2019	2018	2017
Less than one year	P1,206,274	P1,144,812	P1,176,059
One to two years	958,421	1,200,895	1,263,989
Two to three years	911,110	1,088,371	1,118,481
Three to four years	778,016	924,874	985,483
Four to five years	738,322	831,857	853,614
More than five years	7,139,242	7,388,883	8,856,007
	P11,731,385	P12,579,692	P14,253,633

The Group subleases a portion of its stores to various lessees. The lease terms range from 1 year to 10 years, which are generally renewable based on certain terms and conditions. Rental payments are fixed monthly or percentage of store sales, whichever is higher. Variable lease payments that depend on sales are recognized in profit or loss in the period in which the condition that triggers those payments occurs

Rent income recognized as part of "Other revenue" account in profit or loss amounted to P463.9 million, P407.3 million and P388.6 million, in 2019, 2018 and 2017, respectively (see Note 22).

The future minimum lease collections under non-cancellable operating leases as at December 31 are as follows:

<i>(In thousands)</i>	2019	2018	2017
Less than one year	P275,982	P260,145	P186,083
One to two years	139,825	104,021	69,140
Two to three years	132,084	98,262	65,313
Three to four years	109,161	81,209	53,978
Four to five years	99,237	73,826	49,071
More than five years	82,852	95,071	100,984
	P839,141	P712,534	P524,569

22. Other Revenue

This account consists of:

<i>(In thousands)</i>	Note	2019	2018	2017
Concession fee income		P2,056,097	P1,878,359	P1,647,845
Membership income		572,714	513,589	452,974
Rent income	21	463,942	407,251	388,645
Commission income		20,524	53,674	68,592
Miscellaneous		149,576	141,892	202,784
		P3,262,853	P2,994,765	P2,760,840

Miscellaneous consist of delivery fee income, income from sale of used packaging materials, e-wallet rebates and other individually insignificant items.

23. Operating Expenses

This account consists of:

<i>(In thousands)</i>	Note	2019	2018 (Restated)	2017 (Restated)
Depreciation and amortization	11, 12, 13	P3,191,988	P3,126,787	P2,761,469
Manpower agency		3,617,718	3,019,535	2,878,788
Communication, light and water		2,427,507	2,382,827	1,952,586
Salaries and wages		2,308,371	2,219,108	2,152,204
Outside services		1,226,738	1,684,369	1,151,091
Taxes and licenses		907,331	841,909	703,173
Rent	21, 25	763,171	867,709	942,038
Advertising and marketing		647,824	822,940	466,582
Store and office supplies		571,376	559,444	556,194
Repairs and maintenance		510,638	486,202	393,479
Credit card charges		356,309	298,880	270,111
Distribution Costs		338,910	257,833	317,180
Input VAT allocable to exempt sales		239,069	131,257	58,424
Insurance		221,217	225,757	204,470
SSS/Medicare and HDMF contributions		195,593	157,949	139,091
Transportation		179,733	188,404	140,532

Forward

<i>(In thousands)</i>	Note	2019	2018 (Restated)	2017 (Restated)
Impairment loss on deferred oil and mineral exploration costs	2, 14	128,090	-	-
Representation and entertainment		137,791	129,864	85,283
Retirement benefits cost	26	135,584	170,746	158,377
Fuel and oil		79,129	81,565	57,937
Royalty expense	25	58,897	54,343	46,332
Professional fees		47,749	51,222	46,380
Impairment loss on receivables	11	-	12,798	128
Others		856,356	555,361	372,380
		P19,147,089	P18,326,809	P15,854,229

24. Other Income (Charges)

This account consists of:

<i>(In thousands)</i>	Note	2019	2018 (Restated)	2017 (Restated)
Gain on sale of interest in a subsidiary/joint venture	10,33	P6,073,605	P362,810	P -
Gain from lease terminations	21	42,460	37,850	15,174
Foreign exchange gain (loss)		28,805	23,103	(23,468)
Bank charges		(14,552)	(49,042)	(36,735)
Share in income (losses) of joint ventures and associates	10	11,044	17,142	(133,394)
Gain (loss) on insurance claim		3,503	3,383	(14,268)
Unrealized valuation gain (loss) on financial assets	7	(1,582)	(10,385)	11,779
Gain on disposal of property and equipment		-	15,815	206
Miscellaneous		5,346	20,818	108,381
		P6,148,629	P421,494	(P72,325)

25. Related Party Transactions

The Group's transactions and balances with its related parties follow *(in thousands)*:

Related Party	Year	Note	Amount of Transactions for the Year	Cash and Cash Equivalents/Receivables	Due from Related Parties	Lease Liabilities	Due to Related Parties	Terms	Conditions
Under Common Control									
▪ Loans receivable									
Principal	2019	a	P11,898,908	P11,898,908	P -	P -	P -	Due on September 30, 2020; interest bearing	Unsecured
Interest	2019		342,119	342,119	-	-	-		
▪ Money market placements	2019	b	4,326,000	4,326,000	-	-	-	Less than 3 months	Unsecured
	2018		1,454,307	1,454,307	-	-	-		
▪ Advances for working capital requirements	2019		-	-	-	-	363,146	Due and demandable; non-interest bearing	Unsecured
	2018		38	-	-	-	363,146		
▪ Management fees	2019	e	34,585	-	-	-	-	Due and demandable; non-interest bearing	Unsecured
	2018		34,585	-	-	-	-		
▪ Rent income	2019	f	125,909	-	-	-	-	Due and demandable; non-interest bearing	Unsecured
	2018		125,909	-	-	-	-		
▪ Rent payments	2019	g	332,717	-	-	2,852,778	-	Due and demandable; non-interest bearing	Unsecured
	2018		266,182	-	-	2,941,967	-		
▪ Transaction costs LPC sale	2019		340,654	-	-	-	-	Due and demandable; non-interest bearing	Unsecured
Associates									
▪ Throughput fees	2019	c	-	-	-	-	-	Due within a month after the end of each quarter; non-interest bearing	Unsecured
	2018		30,000	-	-	-	-		
▪ Concession fee expense	2019	d	466,846	-	-	-	-	Due and demandable; non-interest bearing	Unsecured
	2018		522,931	-	-	-	-		
Stockholder									
▪ Advances for working capital requirements	2019		174,027	-	192,068	-	933,197	Due and demandable; non-interest bearing	Unsecured;
	2018		689,098	-	47,971	-	959,243		Unimpaired
▪ Royalty expense	2019	h	47,117	-	-	-	47,117	Due and demandable; non-interest bearing	Unsecured
	2018		54,343	-	-	-	43,474		
Key Management Personnel									
▪ Short-term benefits	2019		23,211	-	-	-	-		
	2018		43,513	-	-	-	-		
Total	2019			P16,567,027	P192,068	P2,852,778	P1,343,460		
Total	2018			P1,454,307	P47,971	P2,941,967	P1,365,863		

a. Loans Receivable

In 2019, the Group through CHC granted loans Union Energy Corporation and League One, Inc., entities under common control, which are payable on September 30, 2020. The loans bear interest based on prevailing market rates agreed with the borrowers on a quarterly basis. Interest rates range from 2% to 4.75%.

b. Money Market Placements

The money market placements are with Philippine Bank of Communications, a local bank under common control.

c. Throughput Fees

On December 15, 2000, the Group through LPC, together with its co-joint venture in MJVC, as "Users" entered into a throughput agreement with MJVC and PLBRC. Under the agreement, MJVC will provide the services to enable each of the users to load and off-load products from vessels and receive products from MJVC's storage facilities. LPC, as a User, shall pay the services and annual fees based on a certain formula agreed upon under the agreement. The fee shall be shared among the users based on the actual tonnage off-loaded or loaded from and to ships. The term of the agreement is for 25 years and shall expire on December 15, 2025. LPC is no longer a related party starting 2019 (see Note 33)

Throughput fees are shown as part of "Cost of Sales" account in the profit or loss.

d. Consignment and Concession

On September 27, 2006, PSMT Philippine, Inc. (PriceSmart), referred to as the "Consignee," an entity under common control, entered into a consignment and concession contract with the Group through KMC, referred to as the "Consignor." The Consignee is the owner and operator of four (4) Warehouse, (1) Fort Bonifacio Global City, Taguig City, Metro Manila; (2) Congressional Avenue, Bago-Bantay, Quezon City; (3) Aseana Business Park, Brgy. Tambo, Paranaque City; and (4) Westgate, Filinvest Alabang, Muntinlupa City, including all the furniture, fixtures and equipment presently situated therein.

Under the contract, the Consignor offered to consign goods at the aforesaid four (4) stores and the Consignee accepted the offer subject but not limited to the terms and conditions stated as follows:

- The Consignee hereby grants to the Consignor the right to consign, display and offer for sale, and sell goods and merchandise as normally offered for sale by Consignee, at the selling areas at the four (4) stores.
- The Consignor shall give the Consignee a trade or volume discount of its gross sales.
- The proceeds of sale of the Consignor shall remain the sole property of the Consignor and shall be kept by the Consignee strictly as money in trust until remitted to the Consignor after deducting the amounts due to the Consignee.

- The term of the contract shall be for a period of five (5) years beginning on the date/s of the signing of the agreement or of the opening of the four (4) stores whichever is later, renewable upon mutual agreement of the parties.
- For and in consideration of the consignment/concession right granted, the consignor gives the consignee a trade or volume discount in the amount equivalent to fifteen percent (15%) of the consignee's gross sales which was decreased to ten percent (10%) through an amendment of the contract on January 1, 2011. On February 23, 2012, the contract was further amended giving the consignee a trade or volume discount of five percent (5%) of the consignee's gross sales.

On February 23, 2012, a new agreement was made between the Consignor and Consignee. Under the new agreement, the Consignor offered to consign goods at the aforesaid four (4) stores and the Consignee accepted the offer subject but not limited to the terms and conditions stated as follows:

- The Consignor shall pay the Consignee four percent (4%) monthly consignment/concession fee based on the Consignor's monthly gross sales.
- Goods sold by the consignor shall be checked-out and paid at the check-out counters of and be manned and operated by the Consignor and issued receipts through the point-of-sale (POS) machines in the name of the Consignor. The proceeds of the sale are and shall remain as the sole property of the Consignor subject to its obligation to pay the consideration stipulated.
- Ownership of the goods delivered to the Consignor at the stores shall remain with the Consignor. Except for the right of Consignee to the payment of the consideration in the amount, manner and within the periods stipulated.
- The Consignment/Concession Contract shall be for a period of five (5) years beginning on March 1, 2012, renewable upon mutual agreement of the parties. The contract was renewed for a period of five (5) years effective March 1, 2017 until February 28, 2022.

On April 22, 2019, the Consignee assigned to the consignor its lease of land located at Westgate, Filinvest Alabang, Muntinlupa City with a lease term from January 1, 2019 until November 15, 2022. The term has been extended until November 15, 2037.

e. Management Agreement

The Group entered into a management agreement with Puregold Realty Leasing and Management, Inc. (PRLMI), an entity under common control. Under the agreement, PRLMI shall handle the leasing and marketing, billing and collection, documentation, and property management services of the properties owned by the realty segment of the Group. In consideration of such services, the Group shall pay monthly management fee to PRLMI equivalent to 5.0% to 8.5% of rental collected by PRLMI. The agreement is valid for a year, and is renewable upon mutual agreement of both parties.

f. Lease Agreement - As a Lessor

The Group and PriceSmart entered into a lease agreement for the rental of land. The term of the lease is 23 years and renewable under such terms and conditions that shall be agreed upon by the parties.

g. Lease Agreement - As a Lessee

The Group entered into lease agreements mainly for stores and warehouses with various entities under common control. Lease terms range from 3 to 25 years and renewable under such terms and conditions that shall be agreed upon by the parties.

h. License Agreement

On August 15, 2011, the Parent Company entered into a license agreement for the use of trademark and logo. In exchange, the Parent Company pays the owner royalty based on a percentage of sales

Amounts owed by and owed to related parties are to be settled in cash.

Related Party Transactions and Balances Eliminated During Consolidation

The terms, conditions, balances and the volume of related party transactions which were eliminated during consolidation in 2019 and 2018 are as follows:

a. Advances from the Parent Company to its subsidiaries

<i>(In thousands)</i>	Outstanding Balance
2019	P9,444,298
2018	9,877,372

These advances are unsecured and with various terms. These are payable in cash. Interest income from these advances amounted to P88.8 million in 2019 and P94.8 million in 2018.

b. Receivables from subsidiaries to their fellow subsidiaries

<i>(In thousands)</i>	Outstanding Balance
2019	P5,047,435
2018	3,946,608

These advances are unsecured and with various terms. These are payable in cash. Interest income from these advances amounted to P770 in 2017.

c. Sale of goods of the subsidiaries within the Group

<i>(In thousands)</i>	Amount of Transactions	Outstanding Balance
2019	P3,087,297	P517,722
2018	2,235,888	515,533

Receivables from sale of goods are non-interest bearing are generally on a 30-day credit terms.

- d. Sale of services of the subsidiaries within the Group

<i>(In thousands)</i>	Amount of Transactions	Outstanding Balance
2019	P524,610	P132,033
2018	650,902	10,927

Receivables from sale of services are unsecured, non-interest bearing and are generally on a 30-day credit terms.

- e. Dividend income received by the Parent Company from dividends declared by its subsidiaries

<i>(In thousands)</i>	Amount of Transactions	Outstanding Balance
2019	P1,228,737	P1,829,061
2018	600,000	1,674,762

Cash dividends are due on payment date.

- f. Dividend income received by a subsidiary from dividends declared by a fellow subsidiary

<i>(In thousands)</i>	Amount of Transactions	Outstanding Balance
2018	P80	P238

Cash dividends are due on payment date.

- g. Dividend income received by a subsidiary from dividends declared by the Parent Company

<i>(In thousands)</i>	Amount of Transactions	Outstanding Balance
2019	P54,494	P29,755
2018	-	40,426

Cash dividends are due on payment date.

- h. Management and arrangement fees charged by the Parent Company to its subsidiaries

<i>(In thousands)</i>	Amount of Transactions	Outstanding Balance
2019	P301,403	P443,403
2018	385,000	142,000

Receivables from management and arrangement fees are non-interest bearing and are due and demandable and payable in cash.

26. Retirement Benefit Costs

The Group has an unfunded, non-contributory, defined benefit plan covering all of its permanent employees. The plan provides retirement benefits under Republic Act No. 7641 (the Act) upon compulsory retirement at the age of sixty five (65) or upon optional retirement at age sixty (60) or more but not more than age sixty five (65) with at least five (5) years in service. The benefits as required by the Act are equivalent to at least one-half month (1/2) month salary for every year of service, a fraction of at least six (6) months being considered as one (1) whole year. The term one-half (1/2) month salary shall mean: (a) 50% of the pay salary; (b) one-twelfth (1/12) of the thirteenth (13th) month pay; and (c) one-twelfth (1/12) cash equivalent of not more than five (5) days of service incentive leaves. Contributions and costs are determined in accordance with the actuarial studies made for the plan. Annual cost is determined using the projected unit credit method. Valuations are obtained on a periodic basis.

The retirement benefits liability recognized in the consolidated statements of financial position as at December 31 are as follows:

<i>(In thousands)</i>	2019	2018
Present value of defined benefits obligation	P984,469	P534,446
Fair value of plan assets	(28,651)	(25,913)
	P955,818	P508,533

The following table shows reconciliation from the opening balances to the closing balances of the present value of defined benefits obligations:

<i>(In thousands)</i>	2019	2018
Balance at beginning of year	P534,446	P618,300
Included in profit or loss:		
Current service cost	96,429	137,006
Interest cost	39,670	34,114
	136,099	171,120
Included in other comprehensive income		
Remeasurements gain:		
Financial assumptions	348,338	(352,339)
Experience adjustments	(24,886)	121,726
	323,452	(230,613)
Benefits paid	(4,085)	(1,675)
Reclass to liabilities directly related to assets held-for-sale	(5,443)	(22,686)
Balance at end of year	P984,469	P534,446

The following table shows reconciliation from the opening balances to the closing balances for fair value of plan assets:

<i>(In thousands)</i>	2019	2018
Balance at beginning of year	P25,913	P27,390
Interest income	1,936	-
Return on plan asset excluding interest	802	(1,477)
Balance at end of year	P28,651	P25,913

The Group's plan assets as at December 31 consist of the following:

<i>(In thousands)</i>	2019	2018
Cash in banks	P2,460	P2,033
Debt instruments - government bonds	25,927	23,648
Trust fees payable	(14)	(13)
Other	278	245
	P28,651	P25,913

The following were the principal actuarial assumptions at the reporting date:

	2019	2018
Discount rate	5.21% to 7.5%	7.50% to 7.53%
Future salary increases	5% to 8%	5.00% to 7.00%

Assumptions regarding future mortality have been based on published statistics and mortality tables.

The weighted average duration of the defined benefit obligation as at December 31, 2019 and 2018 reporting period is 25.8 years and 19.4 years, respectively.

Sensitivity Analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

2019 <i>(In thousands)</i>	Increase	Decrease
Discount rate (1% movement)	(P171,669)	P218,568
Future salary increase rate (1% movement)	210,603	(169,496)

2018 <i>(In thousands)</i>	Increase	Decrease
Discount rate (1% movement)	(P11,248)	P91,475
Future salary increase rate (1% movement)	110,943	(88,056)

It should be noted that the changes assumed to be reasonably possible at the valuation date are open to subjectivity, and do not consider more complex scenarios in which changes other than those assumed may be deemed to be more reasonable.

These defined benefit plans expose the Group to actuarial risks, such as longevity risk, interest rate risk, and market (investment) risk.

Funding Arrangements

Since the Group does not have a formal retirement plan, benefit claims under the retirement obligation are paid directly by the Group when they become due.

Maturity analysis of the benefit payments:

	2019 (In thousands)				
	Carrying Amount	Contractual Cash Flows	Within 1 Year	Within 1-5 Years	Within 5-10 Years
Defined benefit obligation	P955,818	P225,661	P36,906	P39,274	P149,481

	2018 (In thousands)				
	Carrying Amount	Contractual Cash Flows	Within 1 Year	Within 1-5 Years	Within 5-10 Years
Defined benefit obligation	P508,533	P228,328	P31,463	P35,173	P161,692

Multi-employer Retirement Plan

The Group is not required to pre-fund the future defined benefits payable under the Retirement Plan before they become due. For this reason, the amount and timing of contributions to the Retirement Fund to support the defined benefits are at the Group's discretion. However, in the event a defined benefit claim arises and the Retirement Fund is insufficient to pay the claim, the shortfall will then be due and payable from the Group to the Retirement Fund.

The Group does not expect to contribute to the plan in 2020.

Asset-liability Matching (ALM)

The Group does not have a formal retirement plan and therefore has no plan assets to match against the liabilities under the retirement obligation.

The Group has no expected future contribution for 2020.

27. Income Taxes

The provision for income tax consists of:

(In thousands)	2019	2018, (Restated)	2017, (Restated)
Current	P3,803,735	P3,553,864	P3,040,629
Deferred	(282,270)	(268,002)	134,810
	P3,521,465	P3,285,862	P3,175,439

The reconciliation of the income tax expense computed at the statutory income tax rate to the actual income tax expense shown in profit or loss is as follows:

<i>(In thousands)</i>	2019	2018, (Restated)	2017, (Restated)
Income before income tax	P18,914,672	P11,767,666	P10,646,139
Income tax expense at the statutory income tax rate:			
30%	P5,884,228	P3,755,047	P3,193,842
5%	19,441	20,412	12,991
Income tax effects of:			
Gain on sale of investment subject to capital gains tax	(1,822,082)	(108,843)	-
Dividend income	(384,739)	(180,011)	(150,407)
Deduction from gross income due to availment of optional standard deduction	(349,350)	(265,138)	(198,467)
Non-deductible expenses	267,478	230,752	185,563
Interest income subject to final tax	(201,719)	(68,571)	(21,630)
NOLCO utilized	97,570	39,047	78,383
Changes in unrecognized DTA	(88,277)	(170,486)	10,998
Non-deductible interest expense	68,406	10,044	4,422
Non-deductible other expenses	28,200	55,009	66,819
Excess of MCIT over RCIT	10,060	8,733	3,593
Share in income of associates and joint ventures	(3,313)	(6,240)	(3,628)
Non-taxable income	(2,738)	(3,004)	(6,483)
Other income subject to final tax	(1,700)	(33,000)	(557)
Penalties	-	2,111	-
	P3,521,465	P3,285,862	P3,175,439

The components of the Group's deferred tax liabilities (DTL) net of deferred tax assets (DTA) in respect to the following temporary differences are shown below:

<i>(In thousands)</i>	2019	2018
	DTA (DTL)	DTA (DTL)
Excess of lease liabilities over ROU assets	P1,490,651	P1,242,014
Retirement benefits liability	307,921	152,560
NOLCO	49,750	-
Allowance for impairment of deferred oil and mineral exploration costs	38,427	-
Allowance for impairment losses on receivables	5,119	5,119
Advance rentals	3,120	3,073
Accrued rent expense	2,106	1,724
Unrealized foreign exchange loss	984	438
Recognition of DTA on merger transaction	117	117
DTA	1,898,195	1,405,045
Fair value of intangible assets from business combination	(1,379,734)	(1,379,734)
Accrued rent income	(64,343)	(47,864)
Borrowing cost	(13,359)	(9,577)
Actuarial loss (gain)	(2,319)	(48,781)
Unrealized foreign exchange gain	(742)	(452)
DTL	(1,460,497)	(1,486,408)
Net	P437,698	(P81,363)

The realization of these deferred tax assets is dependent upon future taxable income that temporary differences and carry forward benefits are expected to be recovered or applied. Deferred tax expense recognized in other comprehensive income pertains to the remeasurements of the retirement benefits liability.

The Group has temporary differences for which deferred tax assets were not recognized because management believes that it is not probable that sufficient taxable profits will be available against which the benefits of the deferred taxes can be utilized.

The unrecognized deferred tax assets as at December 31 are as follows:

<i>(In thousands)</i>	2019	2018
NOLCO	P50,918	P117,430
MCIT	73	21,838
	P50,991	P139,268

The details of the Group's NOLCO which are available for offsetting against future taxable income are shown below (in thousands):

Year Incurred	Amount Incurred	Expired/Applied During the Year	Remaining Balance	Expiration Date
2015	P471,225	(P471,225)	P -	2018
2016	261,275	(261,275)	-	2019
2017	130,158	(130,158)	-	2020
2018	325,232	(325,232)	-	2021
2019	165,833	-	165,833	2022
	P1,353,723	(P1,187,890)	P165,833	

The details of the Group's MCIT which are available for offsetting against future taxable income are shown below (in thousands):

Year Incurred	Amount Incurred	Expired/Applied During the Year	Remaining Balance	Expiration Date
2015	P4,071	(P4,071)	P -	2018
2016	9,512	(9,512)	-	2019
2017	3,593	-	3,593	2020
2018	8,733	-	8,733	2021
2019	10,060	-	10,060	2022
	P35,969	(P13,583)	22,386	

28. Equity

Capital Stock

The details of the Parent Company's common shares follow:

	2019		2018	
	Number of Shares	Amount	Number of Shares	Amount
Authorized - P1.00 par value	10,000,000,000	P10,000,000	10,000,000,000	P10,000,000
Issued and outstanding:				
Issued	7,405,263,564	P7,405,264	7,405,263,564	P7,405,264
Less: Treasury shares	(410,738,990)	(1,403,974)	(381,629,190)	(1,197,727)
Outstanding	6,994,524,574	P6,001,290	7,023,634,374	P6,207,537
Treasury shares:				
Balance at beginning of year	381,629,190	P1,197,727	288,081,290	P628,203
Buy back of shares	29,109,800	206,247	93,547,900	569,524
Balance at end of year	410,738,990	P1,403,974	381,629,190	P1,197,727

Treasury Shares

On December 18, 2014, the Parent Company's BOD approved to buy back its common shares up to P1 billion within one year from the approval. This aims to enhance the shareholders' value through the repurchase of shares whenever the stock is trading at a price discount perceived by the Parent Company as not reflective of its fair corporate value. In 2019 and 2018, the Parent Company renewed its program to buy back its shares for another year.

Retained Earnings

Declaration of Cash Dividends

In 2019, 2018 and 2017, the Parent Company's BOD approved cash dividends for common shareholders with the following details:

Type	Date of Declaration	Date of Record	Date of Payment	Dividend Per Share
Cash	December 15, 2017	January 2, 2018	January 26, 2018	P0.06
Cash	December 15, 2017	January 2, 2018	January 26, 2018	0.04
Cash	February 1, 2019	February 15, 2019	March 1, 2019	0.06
Cash	February 1, 2019	February 15, 2019	March 1, 2019	0.04
Cash	December 10, 2019	December 27, 2019	January 24, 2020	0.04
Cash	December 10, 2019	December 27, 2019	January 24, 2020	0.08

As of December 31, 2019, unpaid cash dividends on common shares amounting to P1.3 billion are included as part of as "Accounts payable and accrued expenses" account in the consolidated statements of financial position (see Note 16).

Non-controlling Interests

For the years ended December 31, 2019, and 2018, movements in NCI pertain to the share in net earnings of and dividends paid to non-controlling shareholders, and NCI on business combinations.

The following table summarizes the financial information of subsidiaries that have material non-controlling interests:

This information is based on amounts before inter-company eliminations.

(In thousands)	2019		2018 (As Restated)			
	PPCI	CHC	PPCI	CHC	LPC	CPHI
NCI percentages	51%	10%	49%	10%	10%	10%
Carrying amounts of NCI	P31,469,630	P776,994	P25,975,793	(P22,311)	P380,498	P541
Current assets	P40,040,355	P12,242,909	P36,065,930	P2,793	P2,642,136	P24
Noncurrent assets	68,594,443	-	64,783,925	3,528,451	2,958,653	44,222
Current liabilities	15,490,809	4,472,966	18,247,249	3,754,356	1,773,127	38,837
Noncurrent liabilities	31,244,639	-	29,590,783	-	22,686	-
Net assets	P61,899,350	P7,769,943	P53,011,823	(P223,112)	P3,804,976	P5,409
Net income attributable to NCI	P3,454,122	P301,582*	P3,037,755	(P32,506)	P62,623	(P53)
Other comprehensive attributable to NCI	(P111,829)	P -	P76,650	P -	P336	P -
Revenue	P154,490,309	P -	P141,139,261	P -	P17,090,512	P -
Net income (loss)	P6,772,788	P7,993,116	P6,199,500	(P325,058)	P626,230	(P530)
Other comprehensive income (loss)	(219,273)	-	156,428	-	3,362	-
Total comprehensive income (loss)	P6,553,515	P7,993,116	P6,355,928	(P325,058)	P629,592	(P530)
Net cash flows provided by (used in):						
Operating	P15,072,887	P -	P9,614,724	(P57)	P1,108,560	P848
Investing	(3,772,907)	11,980,106	(3,395,382)	-	(29,354)	-
Financing	(4,903,880)	-	(3,597,629)	-	(375,690)	(848)
Net increase (decrease) in cash and cash equivalents	P6,396,100	P11,980,106	P2,621,713	(P57)	P703,516	P -

*Adjusted for the share in income in LPC and CPHI recognized from date of acquisition to date of sale and other eliminating adjustment.

29. Segment Information

Segment information reported externally was analyzed on the basis of types of goods supplied and services provided by the Group's operating divisions. However, information reported to the Group's chief operating decision maker for the purposes of resource allocation and assessment of segment performance is more specifically focused on the types of goods or services delivered or provided. The Group's reportable segments are as follows:

Retail	Includes selling of purchased goods to a retail market
Specialty retail	Includes selling of office supplies both on wholesale and retail business and import, export, storage and transshipment of LPG, filling and distributions of LPG cylinders as well as distributions to industrials, wholesale and other customers.
Liquor distribution	Includes selling of purchased goods based on a distributorship channel to a wholesale market
Real estate and property leasing	Includes real estate activities such as selling and leasing of real properties
Oil and mining	Includes exploration, development and production of oil, gas, metallic and nonmetallic reserves

The following segment information does not include any amounts for discontinued operations.

Information regarding the Group's reportable segments is presented hereunder:

Segment Revenue and Results

The following is an analysis of the Group's revenue and results from continuing operations by reportable segment:

<i>(In thousands)</i>	Segment Revenues			Segment Profit		
	2019	2018	2017	2019	2018	2017
Grocery retail	P154,490,309	P141,139,261	P124,703,433	P6,772,788	P6,199,500	P5,494,122
Liquor distribution	10,717,397	8,747,207	6,662,915	1,212,453	738,366	630,669
Specialty retail	2,451,217	19,179,888	14,953,360	97,033	691,815	524,776
Real estate and property leasing	2,146,777	2,030,790	1,873,770	1,225,477	1,085,959	922,092
Holding, oil and mining	-	-	528	9,397,287	403,650	953,787
Total	169,805,700	171,097,146	148,194,006	18,705,038	9,119,290	8,525,446
Eliminations of intersegment revenue/profit	3,738,988	2,886,789	2,555,206	3,334,194	637,486	1,054,746
	P166,066,712	P168,210,357	P145,638,800	P15,370,844	P8,481,804	P7,470,700

Revenue reported above represents revenue generated from external customers and inter-segment sales and is broken down as follows:

<i>(In thousands)</i>	2019	2018, (Restated)	2017, (Restated)
Grocery retail:			
From external customers	P154,490,309	P141,139,261	P124,703,433
Specialty retail:			
From external customers	2,447,877	19,176,554	14,949,102
From intersegment sales	3,340	3,334	4,258
	2,451,217	19,179,888	14,953,360
Liquor distribution:			
From external customers	7,630,100	6,514,654	4,694,538
From intersegment sales	3,087,297	2,232,553	1,968,377
	10,717,397	8,747,207	6,662,915
Real estate and property leasing:			
From external customers	1,498,426	1,379,888	1,291,199
From intersegment sales	648,351	650,902	582,571
	2,146,777	2,030,790	1,873,770
Oil and mining:			
From external customers	-	-	528
Total revenue from external customers	P166,066,712	P168,210,357	P145,638,800
Total intersegment revenue	P3,738,988	P2,886,789	P2,555,206

No single customer contributed 10% or more to the Group's revenue in 2019 and 2018.

The Group's reportable segments are all domestic operations.

Segment Assets and Liabilities

Below is the analysis of the Group's segment assets and liabilities:

<i>(In thousands)</i>	2019	2018, (Restated)	2017, (Restated)
Segment assets:			
Grocery retail	P108,634,798	P100,849,855	P91,829,440
Specialty retail	1,225,214	6,619,617	5,636,684
Liquor distribution	8,776,038	7,240,181	6,094,491
Real estate and property leasing	25,651,342	24,723,835	24,284,037
Oil and mining	105,902,079	96,874,958	97,498,623
Total segment assets	250,189,471	236,308,446	225,343,275
Intercompany assets	95,739,577	96,770,905	96,577,852
Total assets	P154,449,894	P139,537,541	P128,765,423
Segment liabilities:			
Grocery retail	P46,735,448	P47,838,033	P45,173,546
Specialty retail	2,475,886	2,363,770	2,078,973
Liquor distribution	3,299,462	3,033,318	2,462,394
Real estate and property leasing	9,403,470	9,636,227	9,558,209
Oil and mining	10,531,184	8,974,933	9,431,152
Total segment liabilities	72,445,450	71,846,281	68,704,274
Intercompany liabilities	20,056,340	17,433,309	16,990,288
Total liabilities	P52,389,110	P54,412,972	P51,713,986

30. Earnings Per Share

The following table presents information necessary to calculate EPS on net income attributable to equity holders of the Parent Company:

<i>(In thousands except per share data)</i>	2019	2018	2017
Net income attributable to equity holders of the Parent Company (a)	P11,597,381	P5,381,485	P4,731,616
Weighted average number of common shares (b)	7,010,161	7,083,275	7,129,817
Basic/diluted EPS (a/b)	P1.65	P0.76	P0.66

There were no potential dilutive common shares in 2019, 2018 and 2017.

The weighted average number of shares takes into account the weighted average effect of changes in treasury shares transaction during the year.

31. Financial Risk and Capital Management Objectives and Policies

Objectives and Policies

The Group has significant exposure to the following financial risks primarily from its use of financial instruments:

- Credit Risk
- Liquidity Risk
- Interest Rate Risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risks, and the Group's management of capital.

The Group's principal financial instruments include cash and cash equivalents and investments in trading securities. These financial instruments are used to fund the Group's operations and capital expenditures.

The BOD has overall responsibility for the establishment and oversight of the Group's risk management framework. They are responsible for developing and monitoring the Group's risk management policies.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. All risks faced by the Group are incorporated in the annual operating budget. Mitigating strategies and procedures are also devised to address the risks that inevitably occur so as not to affect the Group's operations and detriment forecasted results. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit Risk

Credit risk represents the risk of loss the Group would incur if credit customers and counterparties fail to perform their contractual obligations.

Exposure to credit risk is monitored on an ongoing basis. Credit is not extended beyond authorized limits. Credit granted is subject to regular review, to ensure it remains consistent with the customer's credit worthiness and appropriate to the anticipated volume of business.

Receivable balances are being monitored on a regular basis to ensure timely execution of necessary intervention efforts.

The credit risk for due from related parties and security deposits was considered negligible since these accounts have high probability of collection and there is no current history of default.

Financial information on the Group's maximum exposure to credit risk without considering the effects of collaterals and other risk mitigation techniques is presented below.

<i>(In thousands)</i>	Note	2019	2018
Cash and cash equivalents ⁽¹⁾	4	P23,015,623	P15,595,558
Receivables - net	5	16,637,892	6,630,927
Due from related parties	25	192,068	47,971
Security deposits ⁽²⁾	15	2,231,789	2,158,828
Financial assets at FVPL	7	34,921	36,503
Financial assets at FVOCI	8	17,704	15,522
		P42,129,997	P24,485,309

⁽¹⁾ Excluding cash on hand.

⁽²⁾ Included as part of "Other noncurrent assets".

Financial information on the Group's maximum exposure to credit risk without considering the effects of collaterals and other risk mitigation techniques is presented below.

<i>(In thousands)</i>	December 31, 2019			
	Neither Past Due Nor Impaired	Past Due but Not Impaired	Impaired	Total
Financial Assets at Amortized Cost				
Cash and cash equivalents ⁽¹⁾	P23,015,623	P -	P -	P23,015,623
Receivables	16,686,839	-	48,947	16,637,892
Due from related parties	192,068	-	-	192,068
Security deposits ⁽²⁾	2,231,789	-	-	2,231,789
Financial Assets at FVPL				
Investments in trading securities	34,921	-	-	34,921
Financial Assets at FVOCI				
Investments in preferred shares	7,262	-	-	7,262
Investment in common shares				
Quoted	8,138	-	-	8,138
Unquoted	2,304	-	-	2,304
	P42,178,944	P -	P48,947	P42,129,997

⁽¹⁾ Excluding cash on hand.

⁽²⁾ Included as part of "Other noncurrent assets".

<i>(In thousands)</i>	December 31, 2018			
	Neither Past Due Nor Impaired	Past Due but Not Impaired	Impaired	Total
Financial Assets at Amortized Cost				
Cash and cash equivalents ⁽¹⁾	P15,595,558	P -	P -	P15,595,558
Receivables	4,360,646	2,229,983	40,298	6,630,927
Due from related parties	47,971	-	-	47,971
Security deposits ⁽²⁾	2,158,828	-	-	2,158,828
Financial Assets at FVPL				
Investments in trading securities	36,503	-	-	36,503
Financial Assets at FVOCI				
Investments in equity securities	7,262	-	-	7,262
Quoted	5,956	-	-	5,956
Unquoted	2,304	-	-	2,304
	P22,215,028	P2,229,983	P40,298	P24,485,309

⁽¹⁾ Excluding cash on hand.

⁽²⁾ Included as part of "Other noncurrent assets".

The Group has assessed the credit quality of the following financial assets that are neither past due nor impaired as high grade:

- a. Cash in banks and cash equivalents and short-term investments were assessed as high grade since these are deposited in reputable banks with good credit standing, which have a low probability of insolvency and can be withdrawn anytime. The credit risk for investment in debt securities are considered negligible, since the counterparties are reputable entities with high external credit ratings. The credit quality of these financial assets is considered to be high grade.
- b. Trade receivables were assessed as high grade since majority of trade receivables are credit card transactions and there is no current history of default. Non-trade receivables from suppliers relating to rental, display allowance and concession and advances to contractors were assessed as high grade since these are automatically deducted from the outstanding payables to suppliers and contractors. Advances to employees were assessed as high grade as these are paid through salary deductions and have a high probability of collections.
- c. Due from related parties and security deposits were assessed as high grade since these have a high probability of collection and there is no history of default.

The Group applies the simplified approach using provision matrix in providing for ECL which permits the use of the lifetime expected loss provision for trade and other receivables. The expected loss rates are based on the Group's historical observed default rates. The historical rates are adjusted to reflect current and forward looking macroeconomic factors affecting the customer's ability to settle the amount outstanding. However, given the short period exposed to credit risk, the impact of this macroeconomic factor identified has not been considered significant within the reporting period.

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages liquidity risk by forecasting projected cash flows and maintaining balance between continuity of funding and flexibility in operations. Treasury controls and procedures are in place to ensure that sufficient cash is maintained to cover daily operational working capital requirements. Management closely monitors the Group's future and contingent obligations and sets up required cash reserves as necessary in accordance with internal requirements.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

<i>(In thousands)</i>	December 31, 2019				
	Carrying Amount	Contractual Cash Flow	1 Year or Less	More than 1 Year to 5 Years	More than 5 Years
Other Financial Liabilities					
Accounts payable and accrued expenses ⁽¹⁾	P14,383,106	P14,383,106	P14,383,106	P -	P -
Short-term loans	871,124	871,124	871,124	-	-
Lease liabilities	26,668,941	26,668,941	567,652	2,838,260	23,263,029
Due to related parties	1,343,460	1,343,460	1,343,460	-	-
Long-term loans ⁽²⁾	5,138,262	5,138,262	43,685	5,094,577	-
Customers' deposits ⁽³⁾	351,510	351,510	351,510	-	-
	P48,756,403	P48,756,403	P17,560,537	P7,932,837	P23,263,029

⁽¹⁾ Excluding due to government agencies.

⁽²⁾ Including current and non-current portion.

⁽³⁾ Included as part of "Other current liabilities".

December 31, 2018, As restated					
<i>(In thousands)</i>	Carrying Amount	Contractual Cash Flow	1 Year or Less	More than 1 Year to 5 Years	More than 5 Years
Other Financial Liabilities					
Accounts payable and accrued expenses ⁽¹⁾	P12,395,494	P12,395,494	P12,395,494	P -	P -
Short-term loans	4,866,300	4,866,300	4,866,300	-	-
Lease liabilities	24,222,473	24,222,473	727,239	3,636,195	19,859,039
Due to related parties	1,365,863	1,365,863	1,365,863	-	-
Long-term loans ⁽²⁾	6,622,208	15,045,802	7,522,901	321,292	7,201,609
Customers' deposits ⁽³⁾	248,327	248,327	248,327	-	-
	P49,720,665	P58,144,259	P27,126,124	P3,957,487	P27,060,648

⁽¹⁾Excluding due to government agencies.

⁽²⁾ Including current and non-current portion.

⁽³⁾ Included as part of "Other current liabilities".

Market Risk

Market risk is the risk that changes in market prices such as interest rates that will adversely affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Group is mainly subject to interest rate risks.

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 Group is exposed to interest rate risk on interest earned on cash deposits in banks. Cash deposits with variable rates expose the Group to cash flow interest rate risk. The Group is not exposed to interest rate risk since its short and long-term loans with fixed rates are carried at amortized cost. The Group's policy is to obtain the most favorable interest available without increasing its foreign currency exchange exposure.

Capital Management

The Group's objectives when managing capital are to increase the value of shareholders' investment and maintain steady growth by applying free cash flow to selective investments. The Group set strategies with the objective of establishing a versatile and resourceful financial management and capital structure.

The Group's President has overall responsibility for monitoring of capital in proportion to risk. Profiles for capital ratios are set in the light of changes in the Group's external environment and the risks underlying the Group's business operations and industry.

The Group defines capital as paid-up capital, additional paid-in capital, remeasurements and retained earnings as shown in the consolidated statements of financial position.

There were no changes in the Group's approach to capital management during the year.

The Parent Company maintains equity at a level that is compliant with its loan covenants.

32. Fair Value of Financial Instruments

The carrying values of the Group's financial instruments approximate fair values as at December 31, 2019 and 2018.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash and Cash Equivalents, Short-term Investments, Receivables, Due from Related Parties

The carrying amounts approximate their fair values due to the relatively short-term maturities of these instruments.

Security Deposits

The carrying amount approximates its fair value as the effect of discounting is not considered material.

Financial Assets at FVPL and Financial Assets at FVOCI - Quoted (Level 1)

The fair values of financial assets at FVPL and quoted financial assets at FVOCI and similar investments are based on quoted market prices in an active market.

Financial Assets at FVOCI - Unquoted

The fair value of the unquoted equity securities at FVOCI is not determinable because of the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value.

Accounts Payable and Accrued Expenses, Short-term Loans and Due to Related Parties

The carrying amounts of accounts payable and accrued expenses, short-term loans, due to related parties and customers' deposits approximate the fair value due to the relatively short-term maturities of these financial instruments.

Long-term Loans, Lease Liabilities and Customers' Deposits

The carrying amounts approximate their fair values because the difference between the interest rates of these instruments and the prevailing market rates for similar instruments is not considered significant.

Fair Value Hierarchy

The Group analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

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

As at December 31, 2019 and 2018, the Group has no financial instruments valued based on Level 2 and 3. During the year, there were no transfers into and out of Level 3 fair value measurements.

33. Assets and Liabilities of Disposal Group Classified as Held for Sale

These represent the carrying values of the total assets and liabilities of LPC and CPHI as at December 31, 2018 which are reclassified and presented as part of current assets and current liabilities accordingly by virtue of the subsequent sale of the entire equity interests of Canaria Holdings, Inc., a 90% owned subsidiary of Cosco, in both LPC and CPHI through a Share Purchase Agreement (SPA) executed on October 19, 2018 with Fernwood Holdings, Inc.

As at December 31, 2018, LPC and CPHI were classified as disposal group held for sale.

The PCC subsequently granted its approval to the share purchase transaction on January 17, 2019, which paved the way for the completion and closing of the transaction between the parties on October 19, 2018.

The breakdown of the gain on sale recognized in profit or loss in 2019 is as follows:

(In thousands)

Selling price	P13,100,000
Transaction costs	(1,729,020)
Proceeds	11,370,980
Cost of investment	(3,428,451)
Gain on sale before the effect of share in income recognized	7,942,529
Share in income recognized (date of acquisition to date of sale)	(1,868,924)
Gain on sale	P6,073,605

The major classes of assets and liabilities of both LPC and CPHI as at December 31, 2018 are as follows:

<i>(In thousands)</i>	LPC	CPHI	Total
Cash and cash equivalents	P1,063,107	P24	P1,063,131
Receivables - net	990,137	-	990,137
Due from related parties	49,781	-	49,781
Inventories	527,329	-	527,329
Prepaid expenses and other current assets	11,782	-	11,782
Property and equipment - net	2,424,343	-	2,424,343
Investments	90,906	44,222	135,128
Investment properties - net	108,356	-	108,356
Goodwill and intangibles	1,632,160	51,432	1,683,592
Deferred tax assets - net	87,898	-	87,898
Other non-current assets	239,418	-	239,418
Assets classified as held for sale	7,225,217	95,678	7,320,895
Accounts payable, accrued expenses and other liabilities	1,640,316	402	1,640,718
Income tax payable	91,559	-	91,559
Current maturities of long-term debt, net of debt issue costs	-	16,951	16,951
Due to related parties	41,252	21,485	62,737
Retirement benefits liability	22,686	-	22,686
Liabilities related to assets held for sale	1,795,813	38,838	1,834,651
Net assets classified as held for sale	P5,429,404	P56,840	P5,486,244

No impairment loss was recognized on reclassification of the land as held for sale nor at the end of the reporting period.

The results of operations of LPC and CPHI in 2018 are as follows:

<i>(In thousands)</i>	LPC	CPHI	Total
Revenue	P17,090,512	P -	P17,090,512
Cost of sales	15,811,326	-	15,811,326
Gross profit	1,279,186	-	1,279,186
Operating expenses	391,671	88	391,759
Income from operations	887,515	(88)	887,427
Other income charges:			
Interest expense	(5,690)	(847)	(6,537)
Interest income	3,750	-	3,750
Others- net	10,279	406	10,685
Income before income tax	895,854	(529)	895,325
Income tax expense	269,624	-	269,624
Net income (loss)	P626,230	(P529)	P625,701

34. Events After Reporting Period

On March 8, 2020, under Proclamation 922, the Office of the President has declared a state of public health emergency and subsequently on March 16, 2020, under Proclamation 929, a state of calamity throughout the Philippines due to the spread of the Corona Virus Disease 2019 (COVID-19). To manage the spread of the disease, the entire Luzon has been placed under an Enhanced Community Quarantine, effective from March 17, 2020 until May 15, 2020, which involved several measures including travel restrictions, home quarantine and temporary suspension or regulation of business operations, among others, limiting activities related to the provision of essential goods and services. On May 11, 2020, the President approved the IATF Resolution No. 35 changing the ECQ to either Modified ECQ (MECQ) effective May 16, 2020 to May 31, 2020. On May 29, 2020, the President approved the IATF Resolution No. 41 changing the MECQ status of Metro Manila to General Community Quarantine (GCQ) effective June 1, 2020 to June 15, 2020.

The Group has determined that these events are non-adjusting subsequent events. Accordingly, the financial position and results of operations as at and for the year ended December 31, 2019 have not been adjusted to reflect their impact. The duration and impact of the COVID-19 pandemic, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Group for future periods.

The Group remained vigilant as it identified potential risks to health and business operations posed by this pandemic to the general public and the necessity to join the collaborative effort in mitigating the spread of the virus. Its stores remained open to serve the public as those are considered contributors of essential services nationwide. In the face of this global crisis, the Group remains composed as it operates and maintains mitigation efforts to help safeguard the health and welfare of its employees and customers. The Group does not consider the event as a going concern issue.

35. Restatements

Change in Accounting Policy

PFRS 16, Leases

The Group adopted PFRS 16 on January 1, 2019, and applied the full retrospective transition approach, and, therefore, the comparative figures for the 2018 and 2017 financial years have been restated, as presented below.

PFRS 16 introduced a single, on-balance-sheet lease accounting model for lessees. As a result, the Group, as a lessee, has recognized right-of-use assets, representing its rights to use the underlying assets, and lease liabilities, representing its obligation to make lease payments. In addition, the Group's prepaid expenses and other current assets, other noncurrent assets and other noncurrent liabilities related to previous operating leases arising from straight lining under PAS 17 were derecognized.

On the income statement, there are changes to the nature of expenses related to leases in which the Group leases an asset (lessee), because PFRS 16 replaces the operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

At the time of the transition to PFRS 16, the Group determined whether an arrangement contains a lease. When performing this assessment, the Group could choose whether to apply the PFRS 16 definition of a lease to all its contracts or apply the practical expedient allowed under PFRS 16 and not reassess whether a contract is, or contains, a lease. The Group chose to apply the practical expedient to grandfather the definition of a lease upon transition. This means that it applied PFRS 16 to all contracts entered into before December 31, 2018 and identified as leases in accordance with PAS 17 and Philippine Interpretation IFRIC 4.

The accounting policies applicable to the Group as a lessor in the comparative period were not different from PFRS 16. However, subleases under PFRS 16 are classified with reference to the right-of-use asset, not with reference to the underlying asset, as per PAS 17. On transition, the Group reassessed the classification of a sub-lease contract previously classified as an operating lease under PAS 17. The Group concluded that the sub-lease is still an operating lease under PFRS 16.

See Note 3 for the accounting policy selected for lease accounting.

In 2019, the Group also changed its accounting policy to classify interest payments under financing activities from its previous classification under operating activities in the consolidated statements of cash flows.

PIC Q&A 2018-12-H Accounting for Common Usage Service Area (CUSA) Charges
The Group adopted PIC Q&A 2018-12-H *Accounting for Common Usage Service Area (CUSA) Charges*, retrospectively which resulted to the restatements in the consolidated statements of income presented in this note.

Previously, recoverable charges for electricity usage, water usage, air-conditioning charges and common use service area on existing commercial buildings being leased out to tenants, were all presented as part of revenue. The corresponding expenses paid for such services formed part of the direct cost.

With reference to PFRS 15.B34, when another party is involved in providing goods or services to a customer, the entity shall determine whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e., the entity is a principal), or to arrange for those goods or services to be provided by the other party (i.e., the entity is an agent). An entity determines whether it is a principal or an agent for each specified good or service promised to the customer. A specified good or service is a distinct good or service (or a distinct bundle of goods or services) to be provided to the customer. If a contract with a customer includes more than one specified good or service, an entity could be a principal for some specified goods or services and an agent for others. To determine the nature of promise, the entity shall:

- identify the specified good or service to be provided to the customer in the contract (i.e., whether it is to provide the specified goods or services, or to arrange for those goods and services to be provided by another party); and,
- assess whether it controls each specified good or service before that good or service is transferred to the customer.

As a result, electricity and water usage charges are now reclassified from revenue category since the Group has assessed that it is an agent for the specified services promised to the tenant. Common use service area (CUSA) expenses and air conditioning charges will form part of the revenue since the specified goods or service that the Group promised to the tenant is for the Group to arrange for the maintenance of the common service area and provision of air conditioning services to be provided by another party. The right to the subcontractor services providing the maintenance services mentioned never transfers to the tenant. Instead, the Group retains the right to direct the service provider as it chooses.

The amount of CUSA expenses netted against revenues as a result of the Group's adoption of the PIC Q&A 2018-12-H amounted to P438.4 million, P398.5 million, P332.2 million in 2019, 2018 and 2017, respectively.

Reclassifications

The Group has changed the presentation of credit card fees in prior years from a reduction in sales to a separate expense to conform to the current year presentation. The Group is acting as a principal on sales to the customer by credit card and the bank serves as its agent to collect the cash from the customer. Therefore, the sales are recognized gross and the fee to the bank is an expense. Credit card fees amounted to P356.3 million, P298.9 million and P270.1 million, in 2019, 2018 and 2017, respectively.

The Group reclassified the concession expense to rent expense to conform with the proper current year presentation, in line with its adoption of PFRS 16.

The Group also reclassified certain individually immaterial accounts in 2018 and 2017 to conform to the 2019 presentation and classification in its consolidated statements of position and profit or loss.

The following tables summarize the impacts of the change in accounting policy and reclassifications on the Groups' consolidated financial statements in the current year prior periods presented.

Consolidated Statements of Financial Position

December 31, 2019 (In thousands)	Impact of Changes in Accounting Policies		
	Under PAS 17	Adjustments for PFRS 16	As Presented
Prepaid expenses and other current assets	P2,121,605	(P121,105)	P2,000,500
Right-of-use assets - net	-	21,700,103	21,700,103
Deferred tax assets - net	309,987	256,297	566,284
Other noncurrent assets	4,157,735	(857,946)	3,299,789
Total assets	P133,472,545	P20,977,349	P154,449,894
Lease liabilities:			
Due within one year	P -	(P567,682)	(P567,682)
Due beyond one year	-	(26,101,259)	(26,101,259)
Accounts payable and accrued expenses	(15,126,964)	(1,017)	(15,127,981)
Deferred tax liabilities - net	(422,686)	294,100	(128,586)
Other noncurrent liabilities	(2,955,164)	2,561,945	(393,219)
Total liabilities	(P28,575,197)	(P23,813,913)	(P52,389,110)
Retained earnings	(P56,614,096)	P2,446,884	(P54,167,212)
Non-controlling interest	(32,636,304)	389,680	(32,246,624)
Total equity	(P104,897,348)	P2,836,564	(P102,060,784)

December 31, 2018 (In thousands)	As Previously Reported	Adjustments for PFRS 16	Reclassifications	Other Adjustments	As Restated
Prepaid expenses and other current assets	P2,984,517	(P183,664)	(P195,235)	P3,112	P2,608,730
Investments	611,054	-	(7,879)	-	603,175
Right-of-use assets - net	-	20,062,426	-	-	20,062,426
Deferred tax assets - net	27,239	69,024	-	-	96,263
Other noncurrent assets	3,585,285	(801,187)	203,114	-	2,987,212
Total assets	P120,367,830	P19,166,599	P -	P3,112	P139,537,541
Lease liabilities:					
Due within one year	P -	(P725,846)	P -	P -	(P725,846)
Due beyond one year	-	(23,496,627)	-	-	(23,496,627)
Accounts payable and accrued expenses	(13,015,167)	-	-	(999)	(13,016,166)
Income tax payable	(928,796)	-	-	(2,113)	(930,909)
Other current liabilities	(436,297)	1,396	-	-	(434,901)
Deferred tax liabilities - net	(693,099)	515,473	-	-	(177,626)
Other noncurrent liabilities	(3,256,701)	2,817,486	-	5,873	(433,342)
Total liabilities	(P33,527,615)	(P20,888,118)	P -	P2,761	(P54,412,972)
Retained earnings	(P43,694,953)	P925,324	P -	(P5,873)	(P42,775,502)
Non-controlling interest	(27,185,839)	796,195	-	-	(26,389,644)
Total equity	(P86,840,215)	P1,721,519	P -	(P5,873)	(P85,124,569)

January 1, 2018 (In thousands)	As Previously Reported	Adjustments for PFRS 16	Reclassifications	Other Adjustments	As Restated
Receivables - net	P7,901,686	P -	P -	P1,284	P7,902,970
Prepaid expenses and other current assets	2,799,075	(575,226)	(64,665)	10	2,159,194
Right-of-use assets - net	-	18,164,361	-	-	18,164,361
Deferred tax assets - net	64,438	(56,861)	-	-	7,577
Other noncurrent assets	2,962,320	(382,434)	64,665	-	2,644,555
Total assets	P111,614,289	P17,149,840	-	P1,294	P128,765,423
Lease liabilities:					
Due within one year	P -	(643,493)	P -	P -	(643,493)
Due beyond one year	-	(20,906,227)	-	-	(20,906,227)
Accounts payable and accrued expenses	(13,793,132)	-	-	4,440	(13,788,692)
Other current liabilities	(505,407)	-	-	(4,091)	(509,498)
Deferred tax liabilities - net	(774,280)	593,152	-	-	(181,128)
Other noncurrent liabilities	(2,834,360)	2,412,431	-	-	(421,929)
Total liabilities	(P33,170,198)	(P18,544,137)	P -	P349	(P51,713,986)
Retained earnings	(P38,147,384)	P755,010	P -	(P1,643)	(P37,394,017)
Non-controlling interest	(23,851,625)	639,287	-	-	(23,212,338)
Total Equity	(P78,444,091)	P1,394,297	P -	(P1,643)	(P77,051,437)

January 1, 2017 (In thousands)	As Previously Reported	Adjustments for PFRS 16	As Restated
Prepaid expenses and other current assets	P1,626,699	(P421,158)	P1,205,541
Right-of-use assets - net	-	17,608,323	17,608,323
Deferred tax assets - net	116,588	513,936	630,524
Other noncurrent assets	2,736,901	(114,730)	2,622,171
Total assets	102,586,543	17,586,371	120,172,914
Lease liabilities:			
Due within one year	P -	(P613,366)	(P613,366)
Due beyond one year	-	(19,832,159)	(19,832,159)
Other current liabilities	(542,543)	2,858	(539,685)
Deferred tax liabilities - net	(751,935)	441,058	(310,877)
Other noncurrent liabilities	(2,533,360)	1,384,756	(1,148,604)
Total liabilities	(P30,810,306)	(P18,616,853)	(P49,427,159)
Retained earnings	(P33,808,565)	P560,336	(P33,248,229)
Non-controlling interest	(21,458,344)	470,146	(20,988,198)
Total Equity	(P71,788,237)	P1,030,482	(P70,757,755)

Consolidated Statements of Comprehensive Income

December 31, 2019 <i>(In thousands)</i>	Impact of Changes in Accounting Policies			As Presented
	Under PAS 17	Adjustments for PFRS 16	Adoption of PIC Q&A 2018-12-H	
Revenues	(P165,628,311)	P -	(P438,401)	(P166,066,712)
Operating expenses	19,955,441	(1,246,753)	438,401	19,147,089
Other charges	(6,541,039)	1,631,176	-	(4,909,863)
Provision for income taxes	4,429,488	(908,023)	-	3,521,465
Net income	(P14,869,607)	(P523,600)	P -	(P15,393,207)
Total comprehensive income	(P14,651,900)	(P523,600)	P -	(P15,175,500)

December 31, 2018 <i>(In thousands)</i>	As Previously Reported	Adjustments for PFRS 16	Reclassifications/ Adoption of PIC Q&A 2018-12-H	Other Adjustments	As Restated
Revenues	(P168,387,650)	P -	P177,293	P -	(P168,210,357)
Cost of revenues	140,128,078	(52,922)	(265,537)	-	139,809,619
Operating expenses	19,166,531	(923,737)	88,244	(4,229)	18,326,809
Other income (charges) - net	(116,331)	1,417,359	-	-	1,301,028
Income taxes	3,399,340	(113,478)	-	-	3,285,862
Net Income	(P8,804,797)	P327,222	P -	(P4,229)	(P8,481,804)
Total comprehensive income	(P8,965,648)	P327,222	P -	(P4,230)	(P8,642,656)

December 31, 2018 <i>(In thousands except per share data)</i>	As Previously Reported	Adjustments	As Restated
Net income attributable to equity holders of the Parent Company	P5,547,569	(P166,084)	P5,381,485
Weighted average number of ordinary shares	7,083,275	-	7,083,275
Basic/diluted EPS	P0.78	P -	P0.76

December 31, 2017 <i>(In thousands)</i>	As Previously Reported	Adjustments for PFRS 16	Reclassifications/ Adoption of PIC Q&A 2018-12-H	Other Adjustments	As Restated
Revenues	(P145,749,829)	P -	P111,029	P -	(P145,638,800)
Cost of revenues	120,607,099	(145,635)	(199,273)	(1,200)	120,260,991
Other revenue	(2,759,815)	-	(1,025)	-	(2,760,840)
Operating expenses	16,426,309	(661,349)	89,269	-	15,854,229
Other charges	351,850	1,286,431	-	-	1,638,281
Provision for income taxes	3,291,071	(115,632)	-	-	3,175,439
Net income	(P7,833,315)	P363,815	P -	(P1,200)	(P7,470,700)
Total comprehensive income	(P7,888,035)	P363,815	P -	(P1,644)	(P7,525,864)

December 31, 2017 <i>(in thousands except per share data)</i>	As Previously Reported	Adjustments	As Restated
Net income attributable to equity holders of the Parent Company	P4,924,647	(P193,031)	P4,731,616
Weighted average number of ordinary shares	7,129,817	-	7,129,817
Basic/diluted EPS	P0.69	P -	P0.66

The adjustments in "Operating expenses" account and "Other charges" account in the statements of comprehensive income arising from the adoption of PFRS 16 comprise the following:

<i>(In thousands)</i>	2019	2018	2017
Operating expenses:			
Rent expense	(P2,319,322)	(P2,085,976)	(P1,719,594)
Depreciation and amortization	1,072,569	1,162,239	1,058,245
	(P1,246,753)	(P923,737)	(P661,349)
Other charges:			
Interest expense	P1,673,636	P1,454,112	P1,292,684
Gain from lease terminations	(42,460)	(37,850)	(15,174)
Others	-	1,097	8,921
	P1,631,176	P1,417,359	P1,286,431

Consolidated Statements of Cash Flows

<i>2018 (In thousands)</i>	As Previously Reported	Effect of Reclassifications, Adjustments for PFRS 16 and PIC Q&A 2018-12-H	As Restated
Operating activities			
Net income before tax	P12,204,137	(P436,471)	P11,767,666
Depreciation and amortization	2,375,513	1,162,233	3,537,746
Interest expense	468,844	1,454,112	1,922,956
Rent expense in excess of billings	422,342	(422,342)	-
Gain from pre-terminated contracts	-	(37,850)	(37,850)
Increase in prepaid expense and other current assets	(673,448)	375,784	(297,664)
Increase (decrease) in:			
Accounts payable and accrued expenses	2,640,595	(563,349)	2,077,246
Other current liabilities	(69,110)	(1,396)	(70,506)
Other noncurrent liabilities	-	(705,043)	(705,043)
Interest paid	(458,398)	458,398	-
Retirement benefits paid	-	(1,675)	(1,675)
Net cashflow provided by operating activities	P10,902,004	P1,282,401	P12,184,405
Investing activities			
Decrease in other noncurrent assets	(P865,381)	P598,075	(P267,306)
Additions to:			
Investment properties	(312,657)	(344,731)	(657,388)
Property and equipment	(4,415,071)	341,247	(4,073,824)
Net cashflow used in investing activities	(P5,853,977)	P594,591	(P5,259,386)
Financing activities			
Dividends paid	(P1,764,740)	P564,347	(1,200,393)
Repayment of lease:			
Principal amount	-	(528,829)	(528,829)
Interest expense	-	(1,454,112)	(1,454,112)
Interest expense on loans	-	(458,398)	(458,398)
Net cashflow used in financing activities	(P3,640,464)	(P1,876,992)	(P5,517,456)

2017 (In thousands)	As Previously Reported	Effect of Reclassifications, Adjustments for PFRS 16 and PIC Q&A 2018-12-H	As Restated
Operating activities			
Net income before tax	P11,124,386	(P478,247)	P10,646,139
Depreciation and amortization	2,050,105	1,058,245	3,108,350
Interest expense	406,414	1,292,684	1,699,098
Rent expense in excess of billings	259,803	(259,803)	-
Gain from pre-terminated contracts	-	(15,174)	(15,174)
Increase in:			
Receivables	(1,095,981)	(1,284)	(1,097,265)
Prepaid expense and other current assets	(1,930,501)	639,889	(1,290,612)
Increase (decrease) in:			
Accounts payable and accrued expenses	2,175,362	(4,440)	2,170,922
Other current liabilities	(37,136)	4,091	(33,045)
Other noncurrent liabilities	41,196	(689,065)	(647,869)
Interest paid	(495,049)	495,049	-
Net cashflow provided by operating activities	P8,751,174	P2,041,945	P10,793,119
Investing activities			
Additions to:			
Property and equipment	(P4,439,923)	(P174,314)	(P4,614,237)
Investment property	(680,527)	1	(680,526)
Increase in other noncurrent assets	(P9,640)	P323,641	P314,001
Net cashflow used in investing activities	(P4,503,325)	P 149,328	(P4,353,997)
Financing activities			
Repayment of lease			
Principal amount	P -	(P403,540)	(P403,540)
Interest expense	-	(1,292,684)	(1,292,684)
Interest paid	-	(495,049)	(495,049)
Net cashflow used in financing activities	(P1,505,747)	(P2,191,273)	(P3,697,020)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q
2020 1st Quarter ReportQUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION
CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended: March 31, 2020

2. Commission identification number: 147669

3. BIR Tax Identification No.: 000-432-378

4. Exact name of registrant as specified in its charter:

COSCO CAPITAL, INC.
(Formerly Alcorn Gold Resources Corporation)

5. Province, country or other jurisdiction of incorporation or organization:

Republic of the Philippines

6. Industry Classification Code: (SEC Use Only)

7. Address of registrant's principal office:

2ndFloorTabacaleraBldg 2, 900 D. Romualdez Sr. St.,
Paco, Manila Postal Code: 1007

8. Registrant's telephone number, including area code:

(632) 524-9236 or 38

9. Former name, former address and former fiscal year, if changed since last report:

ALCORN GOLD RESOURCES, CORPORATION

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

Title of Class	Number of Shares of Common Stock Outstanding with P1.00 par value (Listed & Not Listed)
Common	7,405,263,564

11. Are any or all of the securities listed on the Philippine Stock Exchange?

Yes No

The 7,405,263,564 common shares of stock of the company are listed in Philippine Stock Exchange (PSE).

12. Indicate by check mark whether the registrant:

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

Yes No

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

Yes No

I. FINANCIAL INFORMATION

Item 1. Financial Statements

1. Please see attached **SECTION A**.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the accompanying interim financial statements and notes thereto which form part of this Quarterly Report. The interim financial statements and notes thereto have been prepared in accordance with the Philippine Financial Reporting Standards particularly PAS 34, Interim Financial Statements.

II. KEY PERFORMANCE INDICATORS

- The following financial ratios are considered by management as key performance indicators of the Group's financial performance operating results as well as its financial condition:
- Return on investment (Net income/ Ave. stockholders' equity) - measures the profitability of stockholders' investment.
- Profit margin (Net income/ Net revenue) - measures the net income produced for each peso of sales.
- EBITDA to interest expense (EBITDA/ Interest expense) – measures the ability of the Group to cover interest payments on its outstanding debts.
- Current ratio (Current asset/ Current liabilities) - measures the short-term debt-paying ability of the Group.
- Asset turnover (Net revenue/ Average total assets) - measures how efficiently assets are used to generate revenues.
- Asset to equity ratio (Assets/ Shareholders' equity) - indicates the Group's leverage used to finance the firm.
- Debt to equity ratio (Liabilities/ Shareholders' Equity) -measure of a Group's financial leverage.

The table below shows the key performance indicators for the past three interim periods:

Performance Indicators	Q12020	Q12019
ROI	2.25%	8.80%
Profit margin	5.38%	21.88%
EBITDA to interest expense	9.04x	7.69x
Current ratio	3.89:1	3.93:1
Asset turnover	0.28:1	0.27x
Asset to equity	1.47:1	1.44:1
Debt to equity ratio	0.47:1	0.44:1

These financial ratios were calculated based on the consolidated financial statements of Cosco Capital, Inc. and its subsidiaries as described more appropriately in Note 1 to the unaudited interim financial statements attached in Section A hereof.

III. RESULTS OF OPERATION

The table below shows the consolidated results of operations of the Group for the periods ended March 31, 2020 and 2019.

<i>(In Thousands)</i>	Q12020	%	Q12019	%	INCREASE (DECREASE)	%
REVENUES	43,085,267	100.00%	37,428,428	100.00%	5,656,839	15.11%
COST OF SALES/SERVICES	35,344,924	82.03%	30,432,189	81.31%	4,912,735	16.14%
GROSS PROFIT	7,740,343	17.97%	6,996,240	18.69%	744,103	10.64%
OTHER OPERATING INCOME	827,222	1.92%	734,552	1.96%	92,669	12.62%
GROSS OPERATING INCOME	8,567,565	19.89%	7,730,792	20.65%	836,773	10.82%
OPERATING EXPENSES	5,020,400	11.65%	4,437,660	11.86%	582,740	13.13%
INCOME FROM OPERATIONS	3,547,165	8.23%	3,293,132	8.80%	254,033	7.71%
OTHER INCOME (CHARGES) - net	(342,893)	-0.80%	5,681,371	15.18%	(6,024,264)	106.04%
INCOME BEFORE INCOME TAX	3,204,272	7.44%	8,974,503	23.98%	(5,770,231)	-64.30%
INCOME TAX EXPENSE	885,153	2.05%	784,967	2.10%	100,186	12.76%
NET INCOME FOR THE PERIOD	2,319,119	5.38%	8,189,536	21.88%	(5,870,416)	-71.68%
CORE NET INCOME	2,319,119	5.38%	2,056,094	5.49%	263,025	12.79%
CORE NET PATMI	1,413,976	3.28%	1,316,364	3.52%	97,612	7.42%
PATMI	1,413,976	3.28%	6,836,461	22.79%	(5,422,485)	-79.32%
Non-controlling interests	905,143	2.10%	1,353,074	4.12%	(447,931)	-33.10%
	2,319,119	5.38%	8,189,536	26.91%	(5,870,416)	-71.68%
EARNINGS PER SHARE (EPS)	0.20285		0.97435			-79.18%
CORE EPS	0.20285		0.18761			8.12%

Growth in Revenues

Cosco Capital, Inc. and subsidiaries (the "Group") posted a consolidated revenue of P43.08 Billion for the quarter ended March 31, 2020 which reflects an increase by P5.65 Billion or representing a growth of 15.11% compared to last year's revenue of P37.43 Billion.

The revenues of the group's business segments during the first quarter have been affected by the business and social disruptions resulting from the Philippine Government imposed closure of the commercial malls as well as other non-essential business establishments and related community quarantine and lockdown impositions effective on March 16, 2020 in response to the global Covid-19 pandemic. The extent of the initial business impacts are more fully described in the specific segment operating and financial highlights section.

Growth in Net Income

During the same period, the Group realized a consolidated net income of P2.32 Billion which is lower by P5.87 Billion representing a decline of 71.68% as compared to last year's net income of P8.19 Billion which was restated to reflect the retrospective effect of the adoption of new lease accounting standard on Grocery Retail and Specialty Retail segments' net income.

The 2019 net income includes a one-time gain realized from the sale of the group's equity interest in Liguigaz Philippines Corporation amounting to P6.13 BB. Excluding this one-time gain on sale of investment, core consolidated net income for the period ended March 31, 2020 amounted to P2.32 Billion at 5.37% net margin and for a growth of 12.79%.

Net income attributable to equity holders of the parent company (PATMI) in 2020 amounted to about P2.32 Billion which decreased by about P5.42 Billion or 79.32% as compared to the 2019 PATMI amounting to P86.84 Billion. Similarly, excluding the one-time gain from the sale of investment abovementioned, core PATMI in 2020 would amount to P1.41 Billion which is 7.42% higher than the 2019 PATMI.

Grocery Retail Segment

During the first three-months of 2020, the Group's grocery retail business segment registered a consolidated revenue contribution amounting to P40.95 Billion or an increase of P6.06 Billion or about 17.38% growth as compared to the segment's revenue contribution of P34.89 Billion for the same period of last year brought about by its continued aggressive stores expansion program and management's combined efforts to boost revenue.

While the segment experienced some uptick in sales during the quarter due to the initial precautionary consumer buying in preparation for the government imposed community quarantine, revenues from some stand-alone QSR outlets of S&R located at community malls and CBDs which were ordered closed experienced some declines.

Consolidated net income contribution in 2020 amounted to P1.76 Billion which increased by P253.737 Million or 16.81% as compared to the net income contribution of P1.51 Billion in the same period in 2019.

Real Estate Segment

The commercial real estate business segment contributed P367.47 Million to the Group's consolidated revenue in 2020 representing a decline of 1.2% from the segment's revenue contribution during the same period last year amounting to P376.48 Million. This was mainly attributable to the government imposed temporary closures of all malls and commercial assets and the management's waiver of rentals and related fees and charges due to the enhanced community quarantine lockdown.

Consolidated net income contribution in 2020 amounted to about P294.97 Million which decreased by about P18.46 Million or 5.89% as compared to the net income contribution of P313.43 Million in 2019.

Liquor Distribution Segment

The liquor distribution business segment contributed about P1.23 Billion to the Group's consolidated revenue during the same period in 2020 representing a decrease by about P313.95 Million or 20.34% higher as compared to the 2019 revenue contribution of P1.54 Billion. The decline is mainly attributable to the liquor ban imposed nationwide during the enhanced community quarantine lockdown that stated on March 16, 2020.

Consolidated net income contribution in 2020 amounted to about P232.58 Million which increased by P1.53 Million or 0.66% which is the same level to the net income contribution in 2019 amounting to P231.05 Million.

Specialty Retail Segment

Office Warehouse, Inc. contributed about P535.48 Million to the Group's consolidated revenue during the first quarter of 2020 representing a decrease by about P84.43 Million or 13.62% lower as compared to the 2019 revenue contribution of P619.91 Million.

The decline was mainly attributable to the government imposed lockdown and community quarantine starting on March 16, 2020 and the temporary closure of the company's store outlets having been classified as non-essential business. Net income contribution in 2020 amounted to about P19.13 Million which decreased by P10.04 Million or 34.43% as compared to the net income contribution in 2019 amounting to P29.17 Million, which was restated to reflect the retrospective effect of the adoption of adapting the new lease accounting standard under PFRS 16 effective January 1, 2019.

Segment Operating & Financial Highlights

Grocery Retail

Net Sales

For the period ended March 31, 2020, the Grocery Retail segment posted a consolidated net sales of P40,953 million for an increase of P6,064 million or a growth of 17.4% compared to P34,889 million in the same period of 2019. The full operation of new organic stores put up in 2019 boost the increase in consolidated net sales in addition to robust like for like stores sales growth and revenue contributions from new organic stores established during the first quarter of 2020.

Like for like sales performance indicators for the period ended March 31 are as follow:

	PGOLD		S&R	
	2020	2019	2020	2019
Net Sales	14.4%	7.1%	5.1%	9.4%
Net Ticket	24.3%	9.1%	9.0%	8.0%
Traffic	-7.9%	-1.8%	-3.6%	1.3%

Gross Profit

For the period ended March 31, 2020, the Grocery Retail segment realized an increase of 13.3% in consolidated gross profit from P6,122 million in 2019 at 17.5% margin to P6,935 million at 16.9% margin in the same period of 2020, driven by strong sales growth from new and old stores and sustained continuing suppliers' support through additional trade discounts in the form of rebates and conditional discounts granted during the period.

Other Operating Income

Other operating income increased by P94 million or 12.8% from P729 million in the three months of 2019 to P823 million in the same period of 2020. This is attributable to increase in concess income and membership income driven mainly by new stores opened during the year and full operation of new stores opened in 2019.

Gross Operating Income

Gross operating income for the first quarter of 2020 amounted to P7,757 million at a gross operating margin of 18.9% which grew by 13.2% from P6,851 million at 19.6% margin in the same period of 2019.

Operating Expenses

Operating expenses increased by P511 million or 11.9% from P4,280 million in the three-month period ended March 31, 2019 to P4,791 million in the same period of 2020. The incremental operating expenses were mainly attributable to depreciation expense as a result of adoption of the new accounting standard, PFRS 16 – Leases, taxes and licenses and utilities principally related to the establishment and operation of new organic stores.

Other Expense - net

Other expenses net of other income amounted to P476 million and P433 million for the three-month periods ended March 31, 2020 and 2019, respectively. Interest income increased in March 2020 due to higher placement in short-term investment as compared to the same period of 2019. Interest expense increased as well due to accretion of interest, pertaining to PFRS 16 – Leases, for both old and new stores.

Net Income

For the period ended March 31, 2020, the Grocery Retail segment earned a consolidated net income of P1,763 million at 4.3% net margin and an increase of 16.8% from P1,510 million at 4.3% net margin in the same period of 2019. This was principally driven by the continuous organic expansion of the Grocery Retail segment's grocery retail outlets on the back of a sustained strong consumer demand. This has been augmented by combined management strategies and programs to boost revenue contributions from both the base stores as well as new stores.

Commercial Real Estate

The Group's Real Estate Segment posted P535.13 Million in revenues in the three-month period ended March 31, 2020 or a 1.2% decrease from P541.61 Million in the same period of 2018. This was mainly attributable to the temporary closures of all mall and commercial assets due to the enhanced community quarantine lockdown imposed by the national government and the management's response to waive the rentals and other charges for all affected mall tenants during the second half of March 2020.

Income from operations before depreciation increased by P31.15 Million from P384.91 Million in 2018 to P416.06 Million for the three-month period ended March 31, 2019.

Net income for the period amounted to P294.97 Million or a 5.89% decrease from last year's P313.43 Million brought about by decline in rental revenue.

Liquor Distribution

Revenues generated by the Liquor Distribution Segment decreased to P1.85 Billion in 2020 or 13.01% decline from last year's P2.12 Billion in spite of achieving a 36% growth in volume (no. of cases) of sales.

The decline in revenue directly resulted from the government imposed nationwide liquor ban starting March 16, 2020 as part of the government's community quarantine and lockdown in response to the Covid-19 pandemic.

The strong sales performance is still principally driven by its brandy portfolio which continued to account for more than 60% of sales mix augmented by the strong performance of the other spirits as well as wines and specialty beverages categories.

Income from operations, however, decreased to P319.86 Million in 2019 or 2.4% decline from last year's P327.73 Million

Net income for the 2020 period slightly increased by P2.90 Million from P229.70 Million in 2019 to P232.59 Million in 2020.

Specialty Retail

Office Warehouse

As at March 31, 2020, the company had expanded its retail network to 88 stores from 46 stores at acquisition date, with a net selling area of 15,489 sqm..

Sales revenues decreased to P535.48 Million in 2020 or 13.65% decline as compared to the 2019 revenue contribution of P621.00 Million mainly attributable to the temporary closure of all the company's store outlets due to the lockdown and community quarantine imposed by the government which started on March 16, 2020 that lasted until June 1, 2020. The lockdown resulted to a negative SSSG of 15.33% during the first quarter of 2020.

Net income contribution in 2019 amounted to about P19.13 Million which decreased by P10.04 Million or 34.43% decline as compared to the net income contribution in 2019 amounting to P29.17 Million

IV. FINANCIAL CONDITION

Consolidated Statements of Financial Position

Shown below is the consolidated financial position of the Group as at March 31, 2020 and December 31, 2019:

(In Thousands)	2020	%	2019	%2	INCREASE (DECREASE)	%3
ASSETS						
Cash and cash equivalents	20,557,987	13.41%	24,402,014	15.80%	(3,844,027)	-15.75%
Receivables - net	15,351,312	10.01%	16,637,892	10.77%	(1,286,580)	-7.73%
Financial asset at FVOCI	9,209	0.01%	9,209	0.01%	-	-
Financial asset at FVPL	25,418	0.02%	34,921	0.02%	(9,502)	-27.21%
Inventories	24,787,646	16.17%	24,722,271	16.01%	65,375	0.26%
Due from related parties	232,051	0.15%	192,068	0.12%	39,983	20.82%
Prepayments and other current assets	2,607,523	1.70%	2,000,503	1.30%	607,020	30.34%
Total current assets	63,571,145	41.46%	67,998,877	44.03%	(4,427,732)	-6.51%
Noncurrent Assets						
Property and equipment - net	28,165,789	18.37%	27,927,953	18.08%	237,835	0.85%
Right-of-use assets	21,428,722	13.98%	21,700,103	14.05%	(271,380)	-1.25%
Investment properties - net	11,104,546	7.24%	11,125,998	7.20%	(21,452)	-0.19%
Intangibles and goodwill - net	21,083,712	13.75%	21,089,717	13.65%	(6,005)	-0.03%
Investments	736,985	0.48%	741,175	0.48%	(4,190)	-0.57%
Deferred tax assets-net	599,516	0.39%	566,284	0.37%	33,232	5.87%
Other non-current assets	6,624,231	4.32%	3,299,789	2.14%	3,324,442	100.75%
Total noncurrent assets	89,743,501	58.54%	86,451,018	55.97%	3,292,483	3.81%
Total Assets	153,314,646	100.00%	154,449,895	100.00%	(1,135,249)	-0.74%
LIABILITIES AND EQUITY						
Current Liabilities						
Accounts payable and accrued expenses	11,768,093	7.68%	15,127,981	9.79%	(3,359,888)	-22.21%
Income tax payable	2,075,409	1.35%	1,164,727	0.75%	910,682	78.19%
Short-term loans payable	498,225	0.32%	871,124	0.56%	(372,900)	-42.81%
Current portion of long-term borrowing	43,712	0.03%	43,685	0.03%	27	0.06%
Lease liability	474,080	0.31%	567,682	0.37%	(93,602)	-16.49%
Due to related parties	876,326	0.57%	1,343,460	0.87%	(467,133)	-34.77%
Other current liabilities	599,077	0.39%	596,992	0.39%	2,085	0.35%
Total current liabilities	16,334,921	10.65%	19,715,651	12.77%	(3,380,729)	-17.15%
Noncurrent Liabilities						
Retirement benefit liability	951,437	0.62%	955,818	0.62%	(4,381)	-0.46%
Lease liability-net of current portion	26,113,237	17.03%	26,101,259	16.90%	11,978	0.05%
Deferred tax liabilities	135,056	0.09%	128,586	0.08%	6,470	5.03%
Long term loans payable - net of debt issue cost	5,094,577	3.32%	5,094,577	3.30%	-	-
Other non-current liabilities	530,550	0.35%	393,219	0.25%	137,331	34.92%
Total noncurrent liabilities	32,824,857	21.41%	32,673,459	21.15%	151,398	0.46%
Total Liabilities	49,159,779	32.06%	52,389,110	33.92%	(3,229,331)	-6.16%
EQUITY						
Additional paid-in capital	9,634,644	6.28%	9,634,644	6.24%	-	-
Remeasurement of retirement liability - net of tax	5,412	0.00%	5,412	0.00%	-	-
Reserve for fluctuations in value of financial assets at FVOC	5,603	0.00%	5,603	0.00%	-	-
Treasury shares	(1,629,011)	-1.06%	(1,403,974)	-0.91%	(225,037)	16.03%
Retained earnings	55,581,188	36.25%	54,167,213	35.07%	1,413,976	2.61%
Total Equity Attributable to Equity Holders of Parent Company	71,003,100	46.31%	69,814,161	45.20%	1,188,939	1.70%
Non-controlling interest	33,151,767	21.62%	32,246,624	20.88%	905,143	2.81%
Total Equity	104,154,868	67.94%	102,060,785	66.08%	2,094,082	2.05%
Total Liabilities and Equity	153,314,646	100.00%	154,449,895	100.00%	(1,135,249)	-0.74%

Current Assets

Cash and cash equivalents amounted to P20.56 Billion as at March 31, 2020 with a decrease of P3.84 Billion or 15.75% from December 31, 2019 balance. The decrease was due basically to the net effect of the net operating cash flows, collection of receivables and settlement of trade and non-trade payables principally from the Grocery Retail Segment and Parent Company, payment of 2019 cash dividends, settlement of loans and payments for capital expenditures during the period.

Receivables decreased by 7.73% from December 31, 2019 balance of P16.64 Billion to this year's balance of P15.35 Billion due mainly to the collections made.

Financial assets at fair value through profit or loss (FVPL) decreased by 27.21% from December 31, 2019 balance of P34.92 Million to this period's balance of P25.42 Million due mainly to the effect of changes in stock market prices.

Inventories increased by 0.26% from 2019 balance of P24.72 Billion to this period's balance of P24.79 Billion due additional stocking requirement of existing and new operating stores, as well as the additional stocking requirements of the Liquor Distribution segment. Bulk of the inventory account pertains to the merchandise inventory stocks of the Grocery Retail Segment amounting to P19.33 Billion.

Prepaid expenses and other current assets increased by P607.02 Million or 30.34% at the end of March 2020, mainly due to additional of prepayments made for advertising, taxes and licenses, availment of new policies for insurance of new stores and application of input VAT by Grocery Retail, Real Estate and Liquor Distributions segments.

Due from related parties increased by P39.98 Million at the end of March 2020, due primarily to additional advances made.

Non-current Assets

As at March 31, 2020 and December 31, 2019, total non-current assets amounted to P89.74 Billion or 58.54% of total assets, and P86.45 Billion or 55.97% of total assets, respectively, for an increase of P3.29 Billion or 3.81%.

Property and equipment-net pertains to the buildings and equipment mostly owned by the Grocery Retail segment. Book values of property and equipment increased by P237.83 Million from P27.93 Billion in December 2019 to P28.16 Billion in March 2020 due principally to capital expenditures pertaining to new stores established by the Grocery Retail Segment.

Right-of-use assets (ROU) represents the values recognized from long-term lease contracts covering land and buildings utilized by Grocery Retail, Real Estate, Liquor Distributions and Specialty Retail segments pursuant to the retrospective adoption of the new lease accounting standards under PFRS 16 which became effective January 1, 2019. . Book values of ROU decreased by P271.38 Million from P21.70 Billion in December 2019 to P21.43 Billion in December 2020 due principally to additional ROU assets recognized from new lease contracts entered into pertaining to new organic stores established in the current period net of depreciation recognized during the same period.

Investment properties-net pertains to the land, buildings and equipment owned by the Real Estate segment. Book values of investment properties decreased by P21.45 Million from P11.12 Billion in December 2019 to P11.10 Billion in March 2020.

Investments decreased by P4.19Million from P736.98 Million in December 2019 to P741.17 Million in March 2020.

Intangibles and goodwill-net decreased by P6.0 Million from P21.09 Billion in December 2019 to P21.08 Billion in March 2020 primarily due to the amortizations.

Deferred tax assets increased by P33.23 Million or 5.87% from P5666.28 Million in December 2019 to P599.52 Million in March 2020 resulting mainly from the additional recognition of deferred tax assets by the Grocery Retail segment from ROU assets recognized.

Other non-current assets increased by P3.32 Billion from P3.30 Billion in December 2019 to P6.62 Billion in March 2020. About 34% of these assets are attributable to the Grocery Retail Segment and the increase was primarily due to additional security deposits, advance payment to contractors and advance rentals in relation to new leases acquired for new stores development pipeline as well as the accrued rental income pertaining to future periods in accordance with the lease accounting standards under PAS 17.

Current Liabilities

As at March 31, 2020 and December 31, 2019, total current liabilities amounted to P16.33 Billion and P19.71 Billion respectively, for a decrease of P3.38 Billion or 17.15%.

About 75% of **accounts payable and accrued expenses** pertains to the trade payable to suppliers by the Grocery Retail Segment and the balance mostly to the contractors and suppliers of the Real Estate, Liquor Distribution and Specialty Retail segments. The decrease by P3.36 Billion or 22.21% was primarily due to the settlements of trade and non-trade liabilities and declaration of dividends by the Grocery Retail segment and Parent Company in 2019.

Significant portion of the **income tax payable** pertains to that of the Grocery Retail segment. The increase by P910.68 Million from P1.16 Billion as at December 2019 to P2.07 Billion as at March 31, 2020 is mainly due to additional income taxes incurred relative to the increase in net taxable income during the first quarter in 2020 in relation to the same period in 2019.

Short-term loans payable account decreased by P372.90 Million mainly due to settlements made by the Grocery Retail, Real Estate and Liquor Distribution segments.

Current portion of long-term borrowing increased by P0.27 Million mainly due to amortization of debt issue cost.

Lease liability account decreased by P93.60 Million from P567.68 Million in December 2019 to P474.08 Million in March 2020 due principally to the net effect of additional leases, interest expense amortization recognized and lease payments made during the current period pertaining current portions.

Due to related parties decreased by P467.13 Million mainly due to the settlements made.

Other current liabilities decreased by 37.27% from P434.90 Million as at December 31, 2018 to P597.0 Million as at December 31, 2019 relatively due to deposits from tenants and sale of gift certificates during the year by the Grocery Retail segment.

Noncurrent Liabilities

As at March 31, 2020 and December 31, 2019, total non-current liabilities amounted to P32.82 Billion and P32.67 Billion, respectively, for an increase of P151.40 Billion or 0.46%.

Long-term loans payable-net of current portion amounted to P5.09 Billion as at March 31, 2020.

Lease liability-net of current portion represents the values recognized from long-term lease contracts covering land and buildings utilized by Grocery Retail, Real Estate, Liquor Distributions and Specialty Retail segments pursuant to the retrospective adoption of the new lease accounting standards under PFRS 16 which became effective January 1, 2019. . The account increased by P11.98 Million from P26.10 Billion in December 2019 to P26.11 Billion in March 2020 due principally to the net effect of additional leases, interest expense amortization recognized and lease payments made during the current year.

Other non-current liabilities increased by P137.33 Million or 34.92% from P393.22 Million in December 2019 to P530.55 Million as at March 31, 2020 due to application of customer deposits and advance rentals by the Real Estate segment.

Equity

As at March 31, 2020 and December 31, 2019, total equity amounted to P104.15 Billion and P102.06 Billion, respectively, for an increase of P2.09 Billion or 2.05%.

Treasury shares increased by P225.04 million from P1.40 Billion in December 2019 to P1.63 Billion as at March 31, 2020 due to additional buyback by the Parent Company during the year in relation to the buyback program.

Retained earnings increased by P1.41 Billion or 2.61% from P54.17 Billion in December 2019 to P54.12 Billion as at March 2020 due to profit realized by the Group.

Non-controlling interest increased by P905.14 Million or 2.81% from P32.25 Billion in December 2019 to P33.15 Billion as at March 31, 2020 mainly due to share in the consolidated profit.

V. SOURCES AND USES OF CASH

A brief comparative summary of cash flow movements during the three-month period is shown below:

<i>(In Thousands)</i>	For the Three-month period ended			
	March 31			
		2020		2019
Net cash from (used in) operating activities	P	2,419,785	P	749,539
Net cash from (used) investing activities		(4,018,926)		8,407,229
Net cash used in financing activities		(2,456,734)		(1,765,846)
Net Increase (decrease) in cash and cash equivalents	P	(4,053,855)	P	7,396,612

Net cash from operating activities during the current period are basically attributable to the net effect of the net settlement of trade and non-trade payable accounts by the Grocery Retail, Liquor Distributions, Real Estate and Specialty Retail segments.

On the other hand, net cash from investing activities mainly pertains to the funds used for additional capital expenditures by the Grocery Retail segment's new stores expansion and additional capital expenditures by the Real Estate segment and the proceeds from the sale of investment.

Net cash used in financing activities principally resulted from the net effect of proceeds from top-up placements and settlements of bank loans by the Grocery Retail, Specialty Retail and Liquor Distribution segments during the period, payment of 2019 cash dividends declared by the Grocery Retail segment and Parent Company.

Management believes that the current levels of internally generated funds and its present cash position enables the Group to meet its immediate future liquidity requirements under its current work program commitments as well as other strategic investment opportunities. This can be augmented through availments from existing untapped banking and credit facilities as and when required.

VI. MATERIAL EVENTS AND UNCERTAINTIES

- (i) There are no changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years;
- (ii) There are no material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period;
- (iii) There are no contingent liabilities or assets since the last statement of financial position period;
- (iv) Sources of liquidity – Fundings for the current year will be sourced principally from internally generated cash flows to be augmented by short-term borrowings as may be required.
- (v) There are no events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation;
- (vi) There are no material commitments for capital expenditures other than those performed in the ordinary course of trade or business;
- (vii) There are no known trends, events or uncertainties that have had or that are reasonably expected to have a material impact on the revenues or income from continuing operations;
- (viii) There are no significant elements of income not arising from continuing operations;
- (ix) Due to the Group's sound financial condition, there are no foreseeable trends or events that may have material impact on its short-term or long-term liquidity.

SECTION A

COSCO CAPITAL, INC. AND SUBSIDIARIES
UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Contents

Statements of Financial Position

As at March 31, 2019 and December 31, 2018

Statements of Comprehensive Income

For the Periods Ended March 31, 2019 and 2018

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For the Periods Ended March 31, 2019 and 2018

Statements of Cash Flows

For the Periods Ended March 31, 2019 and 2018

Notes to Financial Statements

CERTIFICATION OF INDEPENDENT DIRECTOR

1. **ROBERT Y. COKENG**, Filipino, of legal age and with office at: 5th Floor, Citibank Center, 8741 Paseo de Roxas, Makati City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for independent director of Cosco Capital, Inc. and have been its independent director since August 30, 2013.
2. I am affiliated with the following companies or organizations (including Government-Owned and Controlled Corporations):

COMPANY/ ORGANIZATION	POSITION/ RELATIONSHIP	PERIOD OF SERVICE
F&J Prince Holdings Corp. (PSE Listed Co.)	Chairman-President	More than 20 years
Magellan Capital Holdings Corp.	Chairman/President	“
Magellan Utilities Dev. Corp.	Chairman/President	“
Pinamucan Industrial Estate Inc.	Chairman	“
Consolidated Tobacco Ind. of the Phils.	Chairman/President	“
Center Industrial and Investment Inc.	Chairman/President	“
Malabrigo Corp.	Chairman/President	“
Pinamucan Power Corp.	Chairman/President	“
Essential Holdings Ltd.	Managing Director	“
Pointwest Technologies Corp.	Chairman	More than 10 years
Pointwest Innovation Corp.	Chairman	“
Business Process Outsourcing Int'l.	Chairman/Exec. Comm. Director	“
IPADS Developers Inc.	Chairman	5 years

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of Cosco Capital Inc. as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC issuances.
4. I am not related to any of the director/officer/substantial shareholder of Cosco Capital Inc.
5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding.

6. (For those in government service/affiliated with a government agency or GOCC). I have the required permission from the _____ to be an independent director in _____, pursuant to Office of the President Memorandum Circular No. 17 and Section 12, Rule XVIII of the Revised Civil Service Rules.
7. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance, and other SEC issuances.
8. I shall inform the Corporate Secretary of Cosco Capital, Inc. of any changes in the above-mentioned information within five days from its occurrence.

Done, this 1st day of July 2020 at Makati City.

Certification of Independent Director:




ROBERT Y. COKENG
Nominee for Independent Director
Cosco Capital, Inc.

SUBSCRIBED AND SWORN to before me this 1 day of July 2020 in Manila, Philippines, affiant personally appeared before me and exhibited to me competent proof of his identity.

JUL 07 2020

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Series of 2020.



EMMA RHEA B. SADURAL-CAPISTRANO
Notary Public for the City of Manila
Commission No. 2019-100 until December 31, 2020
Roll No. 55724
IBP Lifetime Member No. 07476
PTR No. 9123815 / 01-03-2020 / Mla
MCLE No. VI-0022489 / 04-16-19
No. 900 Romualdez St., Paco, Manila

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **OSCAR S. REYES**, Filipino, of legal age and with office at Unit 2504, 139 Corporate Center, Valero St., Salcedo Village, Makati City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for independent director of Cosco Capital, Inc. and have been its independent director since 2009.
2. I am affiliated with the following companies or organizations (including Government-Owned and Controlled Corporations):

COMPANY/ORGANIZATION	POSITION/RELATIONSHIP	PERIOD OF SERVICE
Bank of the Philippine Islands	Director Member, Advisory Council	2003 – 2016 2016 – present
Basic Energy Corporation	Independent Director Member, Advisory Board	2007 – 2019 2019 – present
PLDT, Inc.	Director Member, Advisory Board	2001 – 2010 2010 – present
Manila Water Company Inc.	Independent Director	2005 – present
Pepsi Cola Products Philippines, Inc.	Chairman	2007 – present
PXP Energy Corporation	Director	2017 – present
DMWenceslao & Associates Inc.	Independent Director	2019
PLDT Communications & Energy Ventures, Inc.	Director	2013 – present
Link Edge Inc.	Non-Executive Chairman	2002 – present
Grepa Asset Management	Independent Director	2011 – present
Sun Life Financial Plans Inc.	Independent Director	2006 – present
Sun Life Prosperity Dollar Advantage Fund, Inc.	Independent Director	2004 – present
Sun Life Prosperity Dollar Abundance Fund, Inc.	Independent Director	2002 – present
Sun Life Prosperity GS Fund, Inc.	Independent Director	2011 – present
Sun Life of Canada Prosperity Bond Fund, Inc.	Independent Director	2011 – present
Sun Life Prosperity Money Market Fund, Inc.	Independent Director	2011 – present
Sun Life Prosperity Dynamic Fund Inc.	Independent Director	2018 – present
Sun Life Prosperity Achiever Fund 2028 Inc.	Independent Director	2018 – present
Sun Life Prosperity Achiever Fund 2038 Inc.	Independent Director	2018 – present
Sun Life Prosperity Achiever Fund 2048 Inc.	Independent Director	2018 – present

Sun Life Prosperity World Equity Fund	Independent Director	2018 – present
Sun Life of Canada Prosp. Balance Fund	Independent Director	2018 – present
Sun Life of Canada Prosperity Equity Fund	Independent Director	2018 – present
Petrolift Inc.	Independent Director	2007 – present
Eramen Minerals Inc.	Independent Director	2004 – present
Pioneer Insurance & Surety Corporation	Member, Advisory Board	October 2019
Pioneer Life Inc.	Member, Advisory Board	October 2019
Pioneer Intercontinental Insurance Corp.	Member, Advisory Board	October 2019
Phil. Dealing System Holdings Corp.	Independent Director	April 2019
Phil. Dealing Exchange Corporation	Independent Director	April 2019
Phil. Depository & Trust Corporation	Independent Director	April 2019
Phil. Securities Settlement Corporation	Independent Director	April 2019
Team Energy Corporation	Independent Director	June 2019

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of Cosco Capital Inc. as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC issuances.
4. I am not related to any of the director/officer/substantial shareholder of Cosco Capital, Inc.
5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding.
6. (For those in government service/affiliated with a government agency or GOCC). I have the required permission from the _____ to be an independent director in _____, pursuant to Office of the President Memorandum Circular No. 17 and Section 12, Rule XVIII of the Revised Civil Service Rules.
7. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance, and other SEC issuances.
8. I shall inform the Corporate Secretary of Cosco Capital, Inc. of any changes in the abovementioned information within five days from its occurrence.

Done, this JUL ⁷ 2020 day of July 2020 at CITY OF MANILA.

Certification of Independent Director:




OSCAR S. REYES

Nominee for Independent Director
Cosco Capital, Inc.

SUBSCRIBED AND SWORN to before me this 11th ²⁰²⁰ day of July 2020 in Manila, Philippines, affiant personally appeared before me and exhibited to me his Philippine Passport No. P5302920A valid until December 10, 2022.

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EMMA RHEA B. SADURAL-CAPISTRANO
Notary Public for the City of Manila
Commission No. 2019-100 until December 31, 2020
Roll No. 55724
IBP Lifetime Member No. 07476
PTR No. 9123815 / 01-03-2020 / Mia
MCLE No. VI-0022489 / 04-16-19
No. 900 Romualdez St., Paco, Manila

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **BIENVENIDO E. LAGUESMA**, Filipino, of legal age and with office at: 706 Prestige Tower, F. Ortigas, Jr. Road, Ortigas Center, Pasig City, after having been duly sworn to in accordance with law do hereby declare that:


1. I am a nominee for independent director of Cosco Capital, Inc. and have been its independent director since 2017.
2. I am affiliated with the following companies or organizations:

COMPANY/ORGANIZATION	POSITION/ RELATIONSHIP	PERIOD OF SERVICE
Laguesma Magsalin & Consulta Law Offices	Partner	2001 to present
Maritime Academy of Asia and the Pacific (MAAP)	Member, Board of Directors	April 2019 to present
Cavite United Rural Bank Corporation	Director	July 2019 to present
Asia United Fleet Management Services, Inc.	Director	July 2019 to present
Asia United Leasing and Finance Corporation	Director	July 2019 to present
Rural Bank of Angeles, Inc.	Director	July 2019 to present
Philippine Bank of Communications	Independent Director	November 2019 to present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of Cosco Capital Inc. as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC issuances.
4. I am not related to any of the director/officer/substantial shareholder of Cosco Capital Inc.
5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding.
6. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance, and other SEC issuances.
7. I shall inform the Corporate Secretary of Cosco Capital, Inc. of any changes in the abovementioned information within five days from its occurrence.

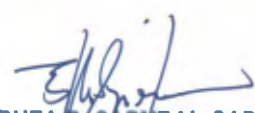
Done, this **JUL 07 2020** day of July 2020 at **CITY OF MANILA**.

Certification of Independent Director:


BIENVENIDO E. LAGUESMA
Nominee for Independent Director
Cosco Capital, Inc.

SUBSCRIBED AND SWORN to before me this JUL 07 2020 day of July 2020 in Manila, Philippines, affiant personally appeared before me and exhibited to me his Social Security System No. 335139112.

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EMMA RHEA B. SADURAL-CAPISTRANO
Notary Public for the City of Manila
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