Main Office: Maharlika Hi-Way, Banga 1st Plaridel, Bulacan
Manila Office: Level 16, Tower 2, The Enterprise Center,
6766 Ayala Avenue Corner Paseo de Roxas, Makati City
Telephone: (044) 670-1492 / 670-0693 / 795-0136
Fax: (044) 795-1979
Website: www.calatacorp.com

24 June 2013

**MS. JANET A. ENCARNACION**
Head, Disclosure Department
Philippine Stock Exchange,
**Philippine Stock Exchange Plaza**
Ayala Triangle, Ayala Avenue, Makati City

Dear Ms. Encarnacion,

Pursuant to the Revised Disclosure Rules of the Philippine Stock Exchange, we are attaching herewith the Reviewed Interim First Quarter Report (SEC Form 17-Q) covering the period ended March 31, 2013 of Calata Corporation (the "Corporation") as reviewed by the Corporation's independent external auditor Alba Romeo and Co. which was submitted to the Securities and Exchange Commission ("SEC") today, June 24, 2013.

This reviewed report presents an opinion from the independent external auditor that nothing has come to their attention which would lead to a conclusion that the financial information has not been fairly reported. Finally, the filing of this reviewed report is subsequent to the Corporation's previous submission of its Unaudited Interim First Quarter Report (SEC Form 17-Q) which was initially filed with the SEC within the prescribed period and in compliance with the Securities Regulation Code and its Implementing Rules and Regulations.

Very truly yours,

**Atty. Jose Marie E. Fabella**
Corporate Secretary / Corporate Information Officer /
Compliance Officer

A 1 9 9 9 1 1 6 6 6

SEC Registration Number

C A L A T A   C O R P O R A T I O N

(Company's Full Name)

M C   A R T H U R   H I - W A Y   B A N G A   1 S T

P L A R I D E L   B U L A C A N

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

**Benison Paul B. De Torres**

(Contact Person)

**044-795-1979**

(Company Telephone Number)

1 2 | 3 1

*Month* *Day*

(Fiscal Year)

2 3 - A

(Form Type)

*Month* *Day*

(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

---

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

Remarks: Please use BLACK ink for scanning purposes.

21 June 2013

**ATTY. JUSTINA F. CALLANGAN**
Director
Corporation Finance Department
SECURITIESAND EXCHANGE COMMISSION
SEC Building, EDSA, Greenhills
Mandaluyong City

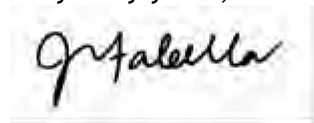
**Re: Reviewed 2013 First Quarter Report and Report on Use of Proceeds**

Dear Atty. Callangan,

On behalf of **CALATA CORPORATION** (the “Corporation”), further to our filing of the Unaudited Interim Quarterly Report (SEC Form 17-Q) for the quarter ended March 31, 2013 which was previously submitted within the prescribed period in compliance with the requirements of the Securities Regulation Code and its Implementing Rules and Regulations, we submit the Corporation’s Reviewed Interim Quarterly Report (SEC Form 17-Q) for the quarter ended March 31,2013, of which review procedures were performed by the Corporation’s Independent External Auditor, Alba Romeo and Co.

We likewise attach a Report on the Corporation’s Use of Proceeds as of March 31, 2013 as prepared by the External Auditor, Alba Romeo and Co.

Very truly yours,



**ATTY. JOSE MARIE E. FABELLA**
Corporate Secretary
Corporate Information Officer
Compliance Officer

## SECURITIES AND EXCHANGE COMMISSION

## SEC FORM 17-Q

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

1. For the quarterly period ended **March 31, 2013**

2. Commission identification number **A199911666** 3. BIR Tax Identification No **005-712-797-000**

4. Exact name of issuer as specified in its charter

   **Calata Corporation**

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

6. Industry Classification Code: [ ] (SEC Use Only)

.......................................................................................................................

7. Address of issuer's principal office Postal Code

   **McArthur Highway, Banga 1st, Plaridel, Bulacan** **3004**

8. Issuer's telephone number, including area code

   **(044) 795 0136**

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

   **Not Applicable**

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

| Title of each Class | Number of shares of common stock outstanding and amount of debt outstanding |
|---|---|
| **Common Shares** | **360, 112, 000 shares** |

11. Are any or all of the securities listed on a Stock Exchange?

    Yes [ / ] No [ ]

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

**Philippine Stock Exchange** **Common Shares**

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 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (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 ninety (90) days.

Yes [ / ] No [ ]

**PART I--FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

Please see attached reviewed quarterly financial statements as of 31 March 2013.

**PART II--OTHER INFORMATION**

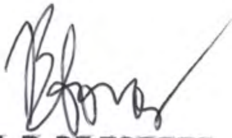
The issuer may, at its option, report under this item any information not previously reported in a report on SEC Form 17-C. If disclosure of such information is made under this Part II, it need not be repeated in a report on Form 17-C which would otherwise be required to be filed with respect to such information or in a subsequent report on Form 17-Q.

**SIGNATURES**

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

**CALATA CORPORATION**

**JOSEPH H. CALATA**
President/CEO
June 18, 2013



**BENISON PAUL B. DE TORRES**
Chief Finance Officer
June 18, 2013

ALBA ROMEO & CO.
Tel: +(632) 844 2016
Fax: +(632) 844 2045
www.bdo.net.ph
7/F Multinational Bancorporation Centre
6805 Ayala Avenue, Makati City 1226 Philippines
Branches: Bacolod/Cagayan de Oro/ Cebu

**REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION**

The Stockholders and the Board of Directors
Calata Corporation
*(formerly Planters Choice Agro Products, Inc.)*
McArthur Highway, Banga 1st
Plaridel, Bulacan

We have reviewed the accompanying statements of financial position of Calata Corporation (*formerly Planters Choice Agro Products, Inc.*) as at March 31, 2013 and December 31, 2012 and the related statements of income, comprehensive income, changes in equity and cash flows for the three-month periods ended March 31, 2013 and 2012, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with Philippine Financial Reporting Standards. Our responsibility is to express a conclusion on this interim financial information based on our review.

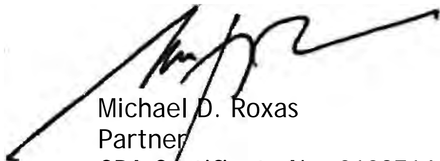
Scope of Review

We conducted our review in accordance with Philippine Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Philippine Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not present fairly, in all material respects, the financial position of the entity as at March 31, 2013 and December 31, 2012, and of its financial performance and its cash flows for the three-month periods ended March 31, 2013 and 2012 in accordance with Philippine Financial Reporting Standards.

**ALBA ROMEO & CO.**



Michael D. Roxas
Partner
CPA Certificate No. 0108714
Tax Identification No. 300-647-353-000
PTR No. 3682020 issued on January 12, 2013, Makati City
BOA/PRC Registration No. 0005 (Firm), issued on November 12, 2012,
effective until December 31, 2015
SEC Accreditation No.1233-A (Individual), Group A, issued on June 21, 2012,
effective until June 20, 2015
SEC Accreditation No. 0007-FR-3 (Firm), Group A, issued on March 22, 2012,
effective until March 21, 2015
BIR Accreditation No. 08-005267-1-2011, issued on March 29, 2011,
effective until March 29, 2014

May 29, 2013
Makati City

# CALATA CORPORATION AND ITS SUBSIDIARY

## CONSOLIDATED FINANCIAL STATEMENTS
## AS OF MARCH 31, 2013 (UNAUDITED)
## AND DECEMBER 31, 2012 (AUDITED)
## AND FOR THE THREE-MONTH PERIODS ENDED
## MARCH 31, 2013 AND 2012 (UNAUDITED)

CALATA CORPORATION AND ITS SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
MARCH 31, 2013 AND DECEMBER 31, 2012

| | Note | 2013 | 2012 |
|---|---|---|---|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | 8 | **P76,409,048** | P395,503,777 |
| Trade and other receivables, net | 9 | **242,836,465** | 242,146,197 |
| Loans receivable | 10 | **9,650,000** | 9,650,000 |
| Advances to related parties | 22 | **218,759,267** | 41,567,329 |
| Inventories | 11 | **271,630,457** | 220,483,700 |
| Prepayments and other current assets | | **3,214,101** | 3,214,102 |
| Total current assets | | **822,499,337** | 912,565,105 |
| Noncurrent assets | | | |
| Loans receivable | 10 | **120,000,000** | 120,000,000 |
| Investment properties | 12 | **112,865,000** | 112,865,000 |
| Property and equipment, net | 13 | **362,697,672** | 345,444,069 |
| Deferred tax assets | 24 | **2,681,617** | 2,589,764 |
| Other noncurrent assets | 25 | **3,305,132** | 3,305,132 |
| Total noncurrent assets | | **601,549,422** | 584,203,965 |
| Total assets | | **P1,424,048,759** | P1,496,769,070 |
| LIABILITIES AND EQUITY | | | |
| Current liabilities | | | |
| Trade and other payables | 14 | **P65,689,036** | P186,928,204 |
| Loans payable | 15 | **525,691,461** | 502,137,982 |
| Advances from related parties | 22 | **-** | 2,070,350 |
| Income tax payable | | **53,314,622** | 45,786,638 |
| Total current liabilities | | **644,695,119** | 736,923,174 |
| Non-current liabilities | | | |
| Loans payable | 15 | **5,637,252** | 6,022,303 |
| Retirement benefit liability | 23 | **3,244,748** | 2,938,573 |
| Deferred tax liabilities | 24 | **2,551,425** | 1,968,000 |
| Total noncurrent liabilities | | **11,433,425** | 10,928,876 |
| Total liabilities | | **656,128,544** | 747,852,050 |
| Equity | | | |
| Share capital | 16 | **360,112,000** | 360,112,000 |
| Share premium | 16 | **209,157,649** | 209,157,649 |
| Retained earnings | | **198,650,566** | 179,647,371 |
| Total equity | | **767,920,215** | 748,917,020 |
| Total liabilities and equity | | **P1,424,048,759** | P1,496,769,070 |

*(The notes on pages 6 to 54 are an integral part of these consolidated financial statements.)*

CALATA CORPORATION AND ITS SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE-MONTH PERIODS ENDED
MARCH 31, 2013 AND 2012

| | Notes | 2013 | 2012 |
|---|---|---|---|
| **Sales** | 18 | **P488,143,877** | P570,444,579 |
| Cost of sales | 19 | **(426,796,196)** | (507,240,712) |
| **Gross profit** | | **61,347,681** | 63,203,867 |
| Operating expenses | 20 | **(29,576,793)** | (17,054,144) |
| Other operating income, net | 21 | **951,670** | 332,415 |
| **Profit from operations** | | **32,722,558** | 46,482,138 |
| Finance income | 8, 10 | **2,494,742** | 831,760 |
| Finance costs | 15 | **(8,037,380)** | (7,940,047) |
| **Profit before tax** | | **27,179,920** | 39,373,851 |
| Provision for income tax | 24 | **(8,176,725)** | (11,665,558) |
| **Profit for the year** | | **P19,003,195** | P27,708,293 |
| **Basic and diluted earnings per share** | 26 | **P0.05** | P0.09 |

*(The notes on pages 6 to 54 are an integral part of these consolidated financial statements.)*

CALATA CORPORATION AND ITS SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE-MONTH PERIODS ENDED
MARCH 31, 2013 AND 2012

| | Note | 2013 | 2012 |
|---|---|---|---|
| **Profit for the year** | | **P19,003,195** | P27,708,293 |
| Other comprehensive income | | **-** | - |
| **Total comprehensive income** | | **P19,003,195** | P27,708,293 |
| **Basic and diluted earnings per share** | 26 | **P0.05** | P0.09 |

*(The notes on pages 6 to 54 are an integral part of these consolidated financial statements.)*

CALATA CORPORATION AND ITS SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE THREE-MONTH PERIODS ENDED
MARCH 31, 2013 AND 2012

| | Note | Share capital | Share premium | Retained earnings | Total |
|---|---|---|---|---|---|
| **Balance at January 1, 2012** | | P324,100,000 | P- | P75,904,564 | P400,004,564 |
| Net income for the three-month period | | - | - | 27,708,293 | 27,708,293 |
| Other comprehensive income | | - | - | - | - |
| **Balance at March 31, 2012** | | 324,100,000 | | 103,612,857 | 427,712,857 |
| Issuance of additional shares | 16 | 36,012,000 | 209,157,649 | - | 245,169,649 |
| Net income for the nine-month period | | - | - | 82,666,808 | 82,666,808 |
| Other comprehensive income | | - | - | - | - |
| Effect of purchase of non-controlling interest in subsidiary | 6 | - | - | (6,632,294) | (6,632,294) |
| **Balance at December 31, 2012** | | 360,112,000 | 209,157,649 | 179,647,371 | 748,917,020 |
| Net income for the three-month period | | - | - | 19,003,195 | 19,003,195 |
| Other comprehensive income | | - | - | - | - |
| **Balance at March 31, 2013** | | P360,112,000 | P209,157,649 | P198,650,566 | P767,920,215 |

*(The notes on pages 6 to 54 are an integral part of these consolidated financial statements.)*

CALATA CORPORATION AND ITS SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE-MONTH PERIODS ENDED
MARCH 31, 2013 AND 2012

| | Notes | 2013 | 2012 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before tax | | **P27,179,920** | P39,373,851 |
| Adjustments for: | | | |
| Depreciation and amortization | 13, 20 | **3,254,870** | 1,607,416 |
| Retirement benefit costs | 20, 23 | **306,174** | 444,598 |
| Finance income | 8, 10 | **(2,494,742)** | (831,760) |
| Finance costs | 15 | **8,037,380** | 7,940,047 |
| Operating income before working capital changes | | **36,283,602** | 48,534,152 |
| Decrease (increase) in: | | | |
| Trade and other receivables | | **1,254,481** | (42,933,940) |
| Advances to related parties | 22 | **(178,649,818)** | (16,894,169) |
| Inventories | | **(51,146,758)** | (16,104,139) |
| Prepayments and other current assets | | **(157,166)** | 3,401,918 |
| Increase (decrease) in: | | | |
| Trade and other payables | | **(121,239,168)** | (32,054,864) |
| Advances from related parties | 22 | **(2,070,350)** | (50,546,056) |
| Cash used in operations | | **(315,725,177)** | (106,597,098) |
| Finance income received | | **549,992** | 831,760 |
| Net cash used in operating activities | | **(315,175,185)** | (105,765,338) |
| **Cash flows from investing activities** | | | |
| Increase in related party loans receivable | 10 | **-** | 4,000,000 |
| Decrease in advances to related parties | 22 | **1,457,880** | - |
| Acquisition of property and equipment, net | 13 | **(20,508,473)** | (98,537,015) |
| Net cash used in investing activities | | **(19,050,593)** | (94,537,015) |
| **Cash flows from financing activities** | | | |
| Net availments (payments) of loans payable | 15 | **23,168,428** | 55,500,000 |
| Finance costs paid | | **(8,037,380)** | (7,940,047) |
| Net cash provided by financing activities | | **15,131,048** | 47,559,953 |
| **Net decrease in cash and cash equivalents** | | **(319,094,730)** | (152,742,400) |
| **Cash and cash equivalents** | | | |
| January 1 | | **395,503,777** | 204,788,818 |
| March 31 | | **P76,409,047** | P52,046,418 |

*(The notes on pages 6 to 54 are an integral part of these consolidated financial statements.)*

**CALATA CORPORATION AND ITS SUBSIDIARY**
*(formerly Planters Choice Agro Products, Inc.)*

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**AS AT MARCH 31, 2013 AND DECEMBER 31, 2012**
**AND FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2013 AND 2012**

## NOTE 1 – CORPORATE INFORMATION

Calata Corporation (*formerly Planters Choice Agro Products, Inc.)* (the Parent Company) and its subsidiary (collectively referred herein as the Group) was organized under the laws of the Republic of the Philippines.

The Parent Company was registered with the Philippine Securities and Exchange Commission (SEC) per Registration No. A199911666 on July 23, 1999.

The primary purpose of the Parent Company is to conduct, engage in and carry on, as principal or otherwise, all lawful business activities involving livestock and agricultural business, corporate or otherwise, such as but not limited to the business of acquiring, raising, breeding, slaughtering, preserving, processing, packing, canning, enveloping, storing, marketing, exporting, and commercially distributing livestock such as chicken, fowl, cattle, calves, hogs, goats, sheep, lambs, all kinds of livestock and other animals, as may be permitted by law, for food purposes; the business of cultivating land and other natural resources, planting, growing, producing, buying, preserving, processing, packing, canning, enveloping, storing, marketing, exporting, and commercially distributing food and agricultural products including all kinds of goods, commodities, wares and merchandise of every kind and descriptions whether natural or artificial as may be permitted by law; the business of manufacturing, preparing stocking, packing, buying, selling, importing and exporting, dealing in and delivering all kinds of livestock and agricultural products such as but not limited to poultry, livestock, feeds, feed additives, fertilizers, pesticides, all types of chemicals and substance used for livestock and agriculture, and/or whatsoever materials which may be necessary or incidental to their manufacture or preparation inside or outside the Philippines and all kinds of materials and products and by-products arising out of or used in the breeding and slaughtering of poultry and livestock and all other agricultural activities for food purposes; and to direct, establish, construct, acquire, sell, lease operate and maintain slaughterhouse, dressing plants, processing plant, refrigerating plants, cold storage, warehouses, sheds, silos, bodegas, storage bins, and other buildings, facilities, structures and equipment necessary or expedient for the carrying out of the purposes aforesaid.

The Group's registered office address and principal place of business is at McArthur Highway, Banga 1st, Plaridel, Bulacan.

On January 5, 2010, the Parent Company's Board of Directors (BOD) amended its By-laws to change the corporate name from Planters Choice Agro Products, Inc. to Calata Corporation. On February 22, 2010, the SEC issued a Certificate of Amendment approving the said amendment.

On December 28, 2011, with the approvals by the Philippine Stock Exchange (PSE) for the Parent Company's application for listing and by the SEC for the Registration Statement, a total of 36,012,000 common shares, with P1 par value, representing 10% of outstanding share capital, was offered and subscribed at P7.50 per share through an initial public offering on May 10 to 16, 2012 (see Note 16). The common shares comprise of 36,012,000 new shares issued by the Parent Company by way of a primary offer. The Parent Company's common shares were listed and commenced trading on the PSE on May 23, 2012.

On January 31, 2012, the Parent Company's BOD amended its article of incorporation to change the primary purpose of the Parent Company to include the cultivation of land and other natural resources and on the other hand, to exclude the sale, at wholesale or retail, of livestock such as chicken, fowl, cattle, calves, hogs, goats, sheep, lambs, all kinds of livestock and other animals, as may be permitted by law, for food purposes; and food and agricultural products including all kinds of goods, commodities, wares and merchandise of every kind and descriptions whether natural or artificial. On February 6, 2012, the SEC issued a Certificate of Amendment approving the said amendment.

On July 19, 2012, the Parent Company's BOD approved the conversion of its P55,455,249 worth of advances to equity shares in Agri Phil Corporation (APC) as well as the purchase of all the issued and outstanding shares of stock therein. On August 3, 2012, the SEC approved said conversion which resulted to the Parent Company owning 85.37% ownership in APC. The investing public, including all the shareholders of the Parent Company have been informed of this development through timely and complete disclosures with the SEC via the filing of the requisite Current Report (SEC Form 17-C) and the uploading thereof with the PSE via the PSE Online Disclosure System.

On September 30, 2012, the complete acquisition of APC had been implemented and reflected in the books of the Parent Company's SEC Form 17-Q which was filed with the SEC and uploaded with the PSE via the PSE Online Disclosure System.

APC is a corporation established to engage in import/export, buying, selling, distributing and marketing at wholesale and retail all kinds of goods of every kind and description such as but not limited to agricultural products. APC has been included in the consolidated financial statements by the time the Parent Company gained control.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below. The policies have been consistently applied to the periods presented, unless otherwise stated.

*Statement of compliance*

The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

*Basis of measurement*

The consolidated financial statements have been prepared on a historical cost basis.

*Presentation and functional currency*

The consolidated financial statements are prepared in Philippine Peso (P), which is the Parent Company's functional and presentation currency. All values are rounded off to the nearest Peso, unless otherwise indicated.

*Use of judgments and estimates*

The preparation of consolidated financial statements in compliance with PFRS requires the use of certain critical accounting estimates. It also requires the Group's management to exercise judgment in applying the Group's accounting policies. The areas where significant judgments and estimates have been made in preparing the consolidated financial statements and their effects are disclosed in Note 3.

*Changes in accounting policies and disclosures*

a. New standards and amendments effective from January 1, 2013

The accounting policies adopted are consistent with those of the previous period except for the following new standards and amendments effective for the first time on or after either July 1, 2012 or January 1, 2013 of which none have had a material effect on the consolidated financial statements:

- Amendments to PFRS 7, *Financial Instruments: Disclosures*: Offsetting Financial Assets and Financial Liabilities
- Amendments to PAS 1, *Presentation of Financial Statements*: Items of Other Comprehensive Income
- Amendments to PAS 19, *Employee Benefits:* Actuarial Gains and Losses, Group Plans and Disclosures

The adoption of the standards or amendments is described below:

*i. Standards and amendments relevant to the Group*

- **Amendments to PFRS 7, *Financial Instruments: Disclosures*: Offsetting Financial Assets and Financial Liabilities:** The amendment involves the revision of the required disclosures to include information that will enable users to evaluate the effect or potential effect of netting arrangements on an entity's financial position.

  An entity shall provide the disclosures required by the amendments retrospectively. Earlier application is permitted.

  The amended standard shall be applied for annual periods beginning on or after January 1, 2013 and interim periods within these annual periods.

- **Amendments to PAS 1, *Presentation of Financial Statements*: Items of Other Comprehensive Income:** The new requirements are effective for annual periods beginning on or after July 1, 2012. Earlier application is permitted. The amendments improved the consistency and clarity of the presentation of items of other comprehensive income. The amendments also highlighted the importance that the board places on presenting profit or loss and other comprehensive income together and with equal prominence.

  The main change resulting from the amendments was a requirement for entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments did not address which items are presented in other comprehensive income. The amendments did not change the option to present items of other comprehensive income either before tax or net of tax. However, if the items are presented before tax, then the tax related to each of the two groups of other comprehensive income items (those that might be reclassified and those that will not be reclassified) must be shown separately.

- **Amendments to PAS 19, *Employee Benefits*: Actuarial Gains and Losses, Group Plans and Disclosures**: These amendments eliminate the corridor approach and calculate finance costs on a net funding basis. The amendments would also require recognition of all actuarial gains and losses in other comprehensive income as they occur and of all past service costs in the profit or loss. These amendments replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset).

The amended standard is applied retrospectively with limited exceptions. Entities shall apply the amended PAS 19 for annual periods beginning on or after January 1, 2013. Earlier application is permitted.

*ii. New standards, amendments and interpretation not relevant to the Group*

- Amendments to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards*: Government Loans
- PFRS 11, *Joint Arrangements*
- Amendments to PFRS 11, *Joint Arrangements:* Transition Guidance
- Amendments to PAS 28, *Investment in Associates and Joint Ventures*
- IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*

**Annual improvements to PFRS**

The FRSC issued improvements to PFRS. The following improvements have been adopted as they become effective for annual periods on or after January 1, 2013:

- Amendments to PFRS 1, *First-Time Adoption of Philippine Financial Reporting Standards*
- PAS 1, *Presentation of Financial Statements* – Clarification of the Requirements for Comparative Information
- PAS 16, *Property, Plant and Equipment* - Classification of Servicing Equipment
- PAS 32, *Financial Instruments: Presentation* – Tax Effect of Distribution to Holders of Equity Instruments
- PAS 34, *Interim Financial Reporting* – Interim Financial Reporting and Segment Information for Total Assets and Liabilities

The Group, however, expects no significant impact on its financial position or performance from the adoption of the amendments.

b. New standards and amendments to existing standards issued but not yet effective and not early adopted by the Group

Standards and amendments to existing standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are listed below. This listing is of standards and issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective.

- **PFRS 9, *Financial Instruments: Recognition and Measurement***: PFRS 9 as issued reflects the first phase of the FRSC work on the replacement of PAS 39, *Financial Instruments: Recognition and Measurement* and applies to classification and measurement of financial assets as defined in PAS 39. The standard is effective for annual periods beginning on or after January 1, 2015. In subsequent phases, the FRSC will address classification and measurement of financial liabilities, hedge accounting and derecognition.

  The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets. The Group did not conduct an evaluation on the possible financial impact of an early adoption of the new standard as the Group will not early adopt the standard. However, initial indications show that adoption of PFRS 9 will have no significant impact on its financial position or performance.

- **Amendments to PFRS 9 and PFRS 7, Mandatory Effective Date of PFRS 9 and Transition Disclosures:** The amendments involve the following: (a) change of the original January 1, 2013 mandatory effective date of PFRS 9 to January 1, 2015, (b) modification of the relief from restating prior periods, and (c) additional required disclosures on transition from PAS 39 to PFRS 9.

The amendments only affect disclosure and will have no impact on the Group's financial position or performance. The amended standard shall be applied for annual periods beginning on or after January 1, 2015. Earlier application is permitted.

- **PFRS 10, *Consolidated Financial Statements*:** This standard was developed to eliminate perceived conflict on concept of consolidation between PAS 27 (amended in 2008) and PIC-12, *Consolidation – Special Purpose Entities*. PAS 27 (amended in 2008) requires consolidation of entities based on control whereas PIC-12 mandates consolidation of entities based on risks and rewards. It provides a new definition of control based on three elements: power over the investee, exposure or rights to variable returns from involvement with the investee, ability to use power over the investee to affect the amount of investor's return.

  The new standard is applicable to annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Group did not conduct an evaluation on the possible financial impact based on audited figures as of December 31, 2012 as initial indications show that adoption of PFRS 10 will have no significant impact on its financial position or performance.

- **PFRS 12, *Disclosures of Interests in Other Entities*:** This standard prescribes all of the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. Earlier application is permitted. The Group did not conduct an evaluation on the possible financial impact based on audited figures as of December 31, 2012 as initial indications show that adoption of PFRS 12 will have no significant impact on its financial position or performance.

- **PFRS 13, *Fair Value Measurement*:** This standard was developed to eliminate inconsistencies of fair value measurements dispersed in various existing PFRS. It clarifies the definition of fair value, provides a single framework for measuring fair value and enhances fair value disclosures. Earlier application is permitted. The Group did not conduct an evaluation on the possible financial impact based on audited figures as of December 31, 2012 as initial indications show that adoption of PFRS 13 will have no significant impact on its financial position or performance.

- **Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities:** The amended standards shall be applied for annual periods beginning on or after January 1, 2014. Earlier application is permitted. The amendments define an investment entity and require a parent that is an investment entity to measure its investments in particular subsidiaries at fair value through profit or loss in its consolidated and separate financial statements. It also sets out disclosure requirements for investment entities into PFRS 12 and amends PAS 27.

- **Amendments to PAS 27, *Separate and Consolidated Financial Statements*: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate:** This completes the consolidation project. The standard was amended to contain requirements relating only to separate consolidated financial statements.

  The amended standard is applicable to annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Group did not conduct an evaluation on the possible financial impact based on audited figures as of December 31, 2012 as initial indications show that adoption of the amendments to PAS 27 will have no significant impact on its financial position or performance.

- **Amendments to PAS 32, *Financial Instruments: Presentation:* Offsetting Financial Assets and Financial Liabilities:** This amendment provides additional application guidance for offsetting in accordance with PAS 32. It clarifies the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.

The amended standard shall be applied for annual periods beginning on or after January 1, 2014 and should be applied retrospectively. Earlier application is permitted.

### 2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiary. A subsidiary is an entity over which the Parent Company has the power to govern the financial operating policies generally accompanying a shareholding giving rise to a majority of voting rights.

The subsidiary is fully consolidated from the date of acquisition, being the date on which the Parent Company obtains control, and continues to be consolidated until the date when such control ceases. The financial statements of the subsidiary are prepared for the same reporting period as the Parent Company, using consistent accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Parent Company loses control over the subsidiary, it:

- derecognizes the assets (including goodwill) and liabilities of the subsidiary
- derecognizes the carrying amount of any non-controlling interest
- derecognizes the cumulative translation differences recorded in equity
- recognizes the fair value of the consideration received
- recognizes the fair value of any investment retained
- recognizes any surplus or deficit in profit or loss
- reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

### 2.3 Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in operating expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss. Where an additional interest in an existing subsidiary is acquired (i.e. an acquisition of non-controlling interest), the transaction is treated as an equity transaction. Any difference between the consideration paid and the reduction in the non-controlling interest is charged directly against the Parent Company equity.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PAS, is measured at fair value with changes in fair value recognized either in either profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of PAS 39, it is measured in accordance with the appropriate PFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed.

If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the gain is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

### 2.4 Financial instruments

#### i. Financial assets

#### Initial recognition and measurement

Financial assets within the scope of PAS 39 are classified as financial assets at fair value through profit or loss (FVPL), loans and receivables, held-to-maturity (HTM) investments, available-for-sale (AFS) financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognized initially at fair value plus transaction costs, except in the case of financial assets recorded at FVPL.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

#### Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described below:

*(a) Financial assets at FVPL*

Financial assets at FVPL include financial assets held for trading and financial assets designated upon initial recognition at FVPL.

Financial assets at FVPL are carried in the consolidated statements of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the consolidated statement of income.

Financial assets are designated upon initial recognition at FVPL only if the criteria under PAS 39 are satisfied. The Group has not designated any financial assets at FVPL.

*(b) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in the active market. After initial measurement, such financial assets are subsequently measured at amortized cost using effective interest rate (EIR) method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the consolidated statement of income. The losses arising from impairment are recognized in the consolidated statement of income in finance costs for loans and in other operating expenses for receivables.

Impairment provisions are recognized when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms of the receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net; such provisions are recorded in a separate allowance account with the loss being recognized within operating expenses in the consolidated statement of income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

The Group's loans and receivables comprise cash and cash equivalents, trade and other receivables, loans receivable, advances to related parties and refundable security deposit in the consolidated statements of financial position (see Notes 8, 9, 10, 22 and 25).

*(c) HTM investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, HTM investments are measured at amortized cost using the EIR, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The EIR amortization is included as finance income in the consolidated statement of income. The losses arising from impairment are recognized in the consolidated statement of income in finance costs. The Group did not hold any HTM investments during the period ended March 31, 2013 and for the year ended December 31, 2012.

*(d) AFS investments*

AFS investments include equity investments and debt securities. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at FVPL. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, AFS investments are subsequently measured at fair value with unrealized gains or losses recognized as other comprehensive income in the AFS reserve until the investment is derecognized, when the cumulative gain or loss is recognized in other operating income, or determined to be impaired, at which time the cumulative loss is reclassified from the AFS reserve to the consolidated statement of income in finance costs. Interest earned while holding AFS investments is reported as finance income using the EIR method.

The Group evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intention to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets.

Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the HTM category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.

For a financial asset reclassified from the AFS category the fair value carrying amount at the date of reclassification becomes its new amortized cost and any previous gain or loss on the asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the consolidated statement of income. The Group does not have any asset under this category.

**Derecognition**

A financial asset is derecognized when: a) the rights to receive cash flows from the asset have expired; b) the Group has transferred its rights to receive cash flows from the assets or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

**ii. Impairment of financial assets**

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*(a) Financial assets carried at amortized cost*

For financial assets carried at amortized cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as finance income in the consolidated statement of income. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the consolidated statement of income.

*(b) Financial assets carried at cost*

If there is objective evidence of an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or of a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

*(c) AFS investments*

For AFS investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statement of income – is removed from other comprehensive income and recognized in the consolidated statement of income. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statement of income.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

### iii. Financial liabilities

**Initial recognition and measurement**

Financial liabilities within the scope of PAS 39 are classified as financial liabilities at FVPL and other financial liabilities. The Group determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value and, in the case of other financial liabilities, net of directly attributable transaction costs.

**Subsequent measurement**

The measurement of financial liabilities depends on their classification as described below:

*(a) Financial liabilities at FVPL*

Financial liabilities at FVPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVPL. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by PAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognized in the consolidated statement of income. Financial liabilities designated upon initial recognition at FVPL are designated at the initial date of recognition, and only if the criteria in PAS 39 are satisfied.

The Group does not have any liabilities held for trading nor has it designated any financial liabilities as being at FVPL.

*(b) Other financial liabilities*

After initial recognition, other financial liabilities are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the consolidated statement of income.

Other financial liabilities include trade and other payables, loans payable, advances from related parties and dividends payable (see Notes 14, 15, 17 and 22).

**Derecognition**

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated statement of income.

### iv. Classification of financial instruments between debt and equity

Financial instruments are classified as liability or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability is reported as expense or income.

### v. Offsetting of financial instruments

Financial assets and financial 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 legal right to offset the recognized amounts and there is an 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.

### vi. Fair value of financial instruments

The fair value of financial instruments traded in active markets is based on their quoted market price or dealer price quotation (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include:

- Using recent arm's length market transactions
- Reference to the current fair value of another instrument that is substantially the same
- A discounted cash flow analysis or other valuation models

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 4.

*Fair value measurement hierarchy*

PFRS 7 requires certain disclosures which require the classification of financial assets and financial liabilities measured at fair value using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurement (see Note 4). The fair value hierarchy has the following levels:

a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
b) 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 2); and
c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The level in the fair value hierarchy within which the financial asset or financial liability is categorized is determined on the basis of the lowest level input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of the three levels.

### 2.5 Cash and cash equivalents

Cash and cash equivalents consist of cash in banks and deposits held at call with banks with original maturities of three months or less and are subject to an insignificant risk of change in value. For the purpose of reporting cash flows, cash and cash equivalents are unrestricted and available for use in current operations.

### 2.6 Trade and other receivables

Trade and other receivables are recognized initially at the transaction price and are subsequently measured at amortized cost using the EIR method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

### 2.7 Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realizable value (NRV). Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in, first-out method. NRV represents the estimated selling price less all estimated costs to be incurred in marketing, selling and distributing the goods.

When the NRV of the inventories is lower than the cost, the Group provides for an allowance for the decline in the value of the inventory and recognizes the write-down as an expense in the consolidated statement of income.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized.

### 2.8 Prepayments and other current assets

Prepayments represent expenses not yet incurred but already paid in cash. Prepayments are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are charged to the consolidated statement of income as they are consumed in operations or expire with the passage of time.

Prepayments are classified in the consolidated statements of financial position as current assets when the cost of goods or services related to the prepayment are expected to be incurred within one year or the Group's normal operating cycle, whichever is longer. Otherwise, prepayments are classified as noncurrent assets.

Other assets are recognized when the Group expects to receive future economic benefit from it and the amount can be measured reliably. Other assets are classified in the consolidated statements of financial position as current assets when the cost of goods or services related to the assets are expected to be incurred within one year or the Parent Company's normal operating cycle, whichever is longer. Otherwise, other assets are classified as noncurrent assets.

### 2.9 Investment properties

Investment property, which pertains to land and building held to earn rentals and/or for capital appreciation, is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at cost less accumulated impairment loss, if any.

Transfers to, or from, investment property shall be made only when there is a change in use.

Investment property is derecognized by the Group upon its disposal or the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gain or loss on the retirement or disposal of investment properties is recognized in the consolidated statement of income in the year of retirement or disposal. Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are charged to the consolidated statement of income in the year the costs are incurred.

Gains or losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the consolidated statement of income.

### 2.10 Property and equipment

Property and equipment are initially measured at cost. At the end of each reporting period, items of property and equipment are measured at cost less any subsequent accumulated depreciation, amortization and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognized within provisions.

Subsequent expenditures relating to an item of property and equipment that have already been recognized are added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditures are recognized as expense in the period in which those are incurred.

Depreciation and amortization is computed on the straight-line method based on the estimated useful lives of the assets, except for leasehold improvements, as follows:

| | |
|---|---|
| Office equipment | 5 years |
| Transportation equipment | 5 years |
| Leasehold improvements | 7 years or terms of the lease whichever is shorter |

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognized impairment loss. Cost includes materials used, professional fees and for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy.

Depreciation of these assets, on the same basis as other property assets, commences at the time the assets are ready for their intended use.

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

When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and any impairment in value are removed from the accounts and any resulting gain or loss arising on the disposal or retirement of an asset, determined as the difference between the sales proceeds and the carrying amount of the asset, is recognized in the consolidated statement of income.

### 2.11 Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets such as investment properties and property and equipment are reviewed at each reporting date to determine whether there is any indication of impairment or an impairment loss previously recognized no longer exists or may have decreased. If any such indication exists, the Group makes a formal estimate of the asset's recoverable amount.

The recoverable amount is the higher of an asset or its cash generating unit's (CGU) fair value less costs to sell and its value in use. The fair value less costs to sell is the amount obtainable from the sale of the asset in an arm's length transaction. 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. For an asset that does not generate cash flows independent of those from other assets, the recoverable amount is determined for the CGU to which the asset belongs.

Whenever the carrying amount of an asset or its CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount and an impairment loss is recognized in the consolidated statement of income.

An impairment loss is reversed if there has been a change in the estimates used to determine the 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 and amortization, if no impairment loss had been recognized. Reversals of impairment are recognized in the consolidated statement of income.

### 2.12 Refundable security deposits

Refundable security deposits represent payments made in relation to the leases, utilities and other agreements entered into by the Group. These are carried at amortized cost and will generally be refunded without interest or be applied to certain rentals due and owing and/or damages to the leased premises.

Refundable security deposits are classified in the consolidated statement of financial position as other current assets when the asset is expected to be recovered or settled not more than twelve months after the reporting date. Otherwise, refundable security deposits are classified as noncurrent assets.

### 2.13 Trade and other payables

Trade payables are recognized initially at the transaction price and subsequently measured at amortized cost using the EIR method.

### 2.14 Provisions and contingencies

Provisions are recognized when: (a) the Group has a present obligation (legal or constructive) as a result of a past event; (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as finance cost. When the Group expects a provision or loss to be reimbursed, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain and its amount is estimable. The expense relating to any provision is presented in the consolidated statement of income, net of any reimbursement.

Contingent liabilities are not recognized in the Group's consolidated financial statements. They are disclosed in the notes unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized in the Group's consolidated financial statements but disclosed in the notes to Group's consolidated financial statements when an inflow of economic benefits is probable.

### 2.15 Employee benefits

Retirement benefit cost is determined using the projected unit credit method. This method reflects the services rendered by the employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial valuations are conducted with sufficient regularity, with option to accelerate when significant changes to underlying assumptions occur. Retirement benefit expense includes current service cost, interest cost, recognized actuarial gains and losses, the effect of any curtailment or settlements and amortization of transitional liability at the date of adoption of PAS 19.

The defined benefit liability / defined benefit asset recognized in the consolidated statements of financial position is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit obligation is calculated by an actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related retirement liabilities.

Cumulative unrecognized actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are spread to income over the expected average remaining working lives of employees.

Past-service costs are recognized immediately in income, unless the changes to the retirement plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this instance, the past-service costs are amortized on a straight-line basis over the vesting period.

### 2.16 Share capital

Share capital is measured at par value for all shares issued. When the shares are sold at a premium, the difference between the proceeds and the par value is credited to the "Share premium" account. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the shares are issued to extinguish or settle the liability of the Group, the shares shall be measured either at the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable.

Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds. Costs that relate to the stock market listing, or otherwise are not incremental costs directly attributable to issuing new shares, should be recorded as an expense in the consolidated statement of income.

Transaction costs that relate jointly to more than one transaction (for example, costs of a concurrent offering of some shares and a stock exchange listing of other shares) are allocated to those transactions using a basis of allocation that is rational and consistent with the joint transactions.

### 2.17 Retained earnings

Retained earnings represent the cumulative balance of periodic net income or loss, dividend distribution, prior period adjustments, effect of changes in accounting policy and other capital adjustments. When retained earnings account has a debit balance, it is called "deficit", and presented as a deduction from equity.

### 2.18 Dividends

Dividends are recognized when they become legally payable. Dividend distribution to equity shareholders is recognized as a liability in the Group's consolidated financial statements in the period in which the dividends are declared and approved by the Group's BOD.

### 2.19 Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business.

Revenue from the sale of goods is recognized when all of the following conditions are satisfied:

a. the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
b. the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
c. the amount of revenue can be measured reliably;
d. it is probable that the economic benefits associated with the transaction will flow to the Group; and
e. the costs incurred or to be incurred in respect of the transaction can be measured reliably.

If it is probable that discount will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sale is recognized.

Finance income is accrued on a time proportion basis, by reference to the principal outstanding and at the EIR applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

### 2.20 Costs and expense recognition

Costs and expenses are recognized in the consolidated statement of income when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Costs and expenses are recognized in the consolidated statement of income: on the basis of a direct association between the costs incurred and the earning of specific items of income; on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined; or immediately when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the consolidated statements of financial position as an asset.

Costs and expenses in the consolidated statement of income are presented using the function of expense method. Costs of sales are expenses incurred that are associated with the goods sold and includes purchases of goods and distribution costs. Operating expenses are costs attributable to administrative, marketing and other business activities of the Group.

### 2.21 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. The Group does not have any leases under finance lease.

The Group as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except when another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except when another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### 2.22 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss in the period in which they are incurred.

### 2.23 Income taxes

The tax expense for the period comprises current and deferred tax. Tax expense is recognized in the consolidated statement of income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity, or when the tax arises from a business combination. Current and deferred tax that relates to items that are recognized in other comprehensive income or directly in equity are also recognized in other comprehensive income or directly in equity, respectively.

*Current income tax*

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

*Deferred income tax*

Deferred income tax is provided, using the liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and its carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences. However, deferred income tax liabilities are not recognized if it arises from:

a) the initial recognition of goodwill; or
b) the initial recognition of an asset or liability in a transaction which:
   (i) is not a business combination;
   (ii) the initial recognition of an asset or liability in a transaction which is not a business combination at the time of the transaction affects neither accounting nor taxable profit; and
   (iii) investments in subsidiaries and jointly controlled entities where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits from excess minimum corporate income tax (MCIT) and 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 carry-forward of unused tax credits from MCIT and NOLCO can be utilized, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination; and at the time of transaction, affects neither accounting profit nor taxable profit (tax loss).

The carrying amount of deferred income 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 income tax asset to be utilized.

Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same transaction authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously.

### 2.24 Earnings per share (EPS)

Basic EPS is determined by dividing profit or loss by the weighted average number of shares issued and outstanding during the year.

For the purpose of calculating diluted EPS, profit or loss for the year attributable to ordinary equity holders of the Parent Company and the weighted average number of shares outstanding are adjusted for the effects of all dilutive potential ordinary shares.

### 2.25 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. The key management personnel of the Group and post–employment benefit plans for the benefit of the Group's employees are also considered to be related parties.

### 2.26 Events after the reporting date

Post year-end events up to the date when the consolidated financial statements were authorized for issue that provide additional information about the Group's position at reporting date (adjusting events) are reflected 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.

### 2.27 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the CEO that makes strategic decisions.

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

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, head office expenses, interest income and expenditures and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, and equipment and investment properties.

## NOTE 3 – SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the consolidated financial statements in conformity with PFRS requires the Group's management to make estimates, assumptions and judgments that affect the amounts reported in the consolidated financial statements and accompanying notes.

The estimates and associated assumptions are based on historical experiences and other various factors that are believed to be reasonable under the circumstances including expectations of related future events, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

### Judgments

*Determination of functional currency*

Based on the economic substance of the underlying circumstances relevant to the Parent Company, the functional currency is determined to be the Philippine Peso. It is the currency that mainly influences the Parent Company's operations.

*Classification of financial instruments*

The Group classifies a financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual agreement and the guidelines set by PAS 39 on the definitions of a financial asset, a financial liability or an equity instrument. In addition, the Group also determines and evaluates its intention and ability to keep the investments until its maturity date.

The substance of a financial instrument, rather than its legal form, and the management's intention and ability to hold the financial instrument to maturity generally governs its classification in the consolidated statements of financial position.

The classification of financial assets and liabilities is presented in Note 4.

*Determination whether an arrangement contains a lease*

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is assessed for whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in the arrangement.

The Group has entered into operating lease arrangement as a lessee. The Group, as a lessee, has determined that the lessor retains substantial risks and rewards of ownership of these properties, which are on operating lease agreements.

Leases accounted for as operating leases are disclosed in Note 25.

*Determination of fair value of financial instruments*

The Group carries certain financial assets and liabilities at fair value, which requires use of accounting estimates and judgment. While significant components of fair value measurement were determined using verifiable objective evidence, the amount of changes in fair value would differ if the Group utilized different valuation methodologies and assumptions. Any changes in fair value of these financial assets and liabilities would affect profit and loss and equity.

The fair values and carrying values of financial assets and financial liabilities as of March 31, 2013 and December 31, 2012 are disclosed in Note 4.

**Estimates**

*Impairment of loan and trade and other receivables*

The Group reviews its loans and receivables at each reporting date to assess whether a provision for impairment should be recognized in its consolidated statement of income or loans and receivables balance should be written off. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance is required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. Moreover, management evaluates the presence of objective evidence of impairment which includes observable data that comes to the attention of the Group about loss events such as but not limited to significant financial difficulty of the counterparty, a breach of contract, such as a default or delinquency in interest or principal payments, probability that the borrower will enter bankruptcy or other financial re-organization.

The carrying value of loans receivable amounted to P129,650,000 as of March 31, 2013 and December 31, 2012 (see Note 10). The carrying value of trade and other receivables amounted to P242,836,465 and P242,146,197 as of March 31, 2013 and December 31, 2012, respectively (see Note 9). The Group's allowance for impairment loss on trade receivables amounted to P5,693,975 as of December 31, 2012 (see Note 9).

*Impairment of inventories*

At each reporting date, inventories are assessed for impairment by comparing the carrying amount of each item of inventory (or group of similar items) with its selling price less costs to sell. If an item of inventory (or group of similar items) is impaired, its carrying amount is reduced to selling price less costs to sell, and an impairment loss is recognized immediately in profit or loss.

Based on management's assessment, inventories are fairly stated, thus, no impairment loss needs to be recognized as of March 31, 2013 and December 31, 2012. The carrying amount of inventories amounted to P271,630,457 and P220,483,700 as of March 31, 2013 and December 31, 2012, respectively (see Note 11).

*Estimation of useful lives of property and equipment*

The Group reviews annually the estimated useful lives of property and equipment based on the period over which the assets are expected to be available for use. It is possible that future results of operations could be materially affected by changes in these estimates. A reduction in the estimated useful lives of property and equipment would increase recorded depreciation and amortization expense and decrease the related asset accounts. The estimated useful lives of property and equipment are discussed in Note 2.10 to the consolidated financial statements, which showed no changes during the three-month period ended March 31, 2013.

*Impairment of non-financial assets*

The Group assesses at each reporting date whether there is an indication that the carrying amount of all non-financial assets may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. At the reporting date, the Group assesses whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated.

Based on management's assessment, non-financial assets are fairly stated, thus, no impairment loss needs to be recognized as of December 31, 2012 and 2011. The Group's investment property amounted to P112,865,000 as of March 31, 2013 and December 31, 2012 (see Note 12). The Group's property and equipment, net of accumulated depreciation and amortization, amounted to P362,697,672 and P345,444,069 as of March 31, 2013 and December 31, 2012, respectively (see Note 13).

*Realizability of deferred tax assets*

Management reviews the carrying amount of deferred tax assets at each reporting date. The carrying amount of deferred tax assets is reduced to the extent that it is no longer probable that sufficient taxable profit will be available against which the related tax assets can be utilized. Management believes that sufficient taxable profit will be generated to allow all or part of the deferred tax assets to be utilized.

The Group's recognized deferred tax assets amounted to P2,681,617 and P2,589,764 as of March 31, 2013 and December 31, 2012, respectively (see Note 24).

*Estimation of retirement benefits*

The determination of the obligation and retirement benefits is dependent on management's assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 23 and include, among others, discount rates per annum and salary increase rates. Actual results that differ from the Group's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While the Group believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the retirement obligations.

The details of the Group's retirement benefit are provided in Note 23. Retirement benefit liability amounted to P3,244,748 and P2,938,573 as of March 31, 2013 and December 31, 2012, respectively. Net retirement benefit costs presented under operating expenses amounted to P306,174 and P444,598 for the three-month periods ended March 31, 2013 and 2012, respectively (see Note 20).

## NOTE 4 – FINANCIAL INSTRUMENTS

The following table shows the classification, carrying values and fair values of the Group's financial assets and financial liabilities as of March 31, 2013 and December 31, 2012:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Carrying value | Fair value | Carrying Value | Fair value |
| **Financial assets:** | | | | |
| *Loans and receivables* | | | | |
| Cash and cash equivalents (Note 8) | P76,409,048 | P76,409,048 | P395,503,777 | P395,503,777 |
| Trade and other receivables (Note 9) | 234,543,514 | 234,543,514 | 236,849,508 | 236,849,508 |
| Loans receivable (Note 10) | 129,650,000 | 129,650,000 | 129,650,000 | 129,650,000 |
| Advances to related parties (Note 22) | 50,744,358 | 50,744,358 | 41,567,329 | 41,567,329 |
| Refundable security deposit (Note 25) | 1,652,566 | 1,540,977 | 1,652,566 | 1,529,477 |
| | P492,999,486 | P492,887,897 | P805,223,180 | P805,100,091 |

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Carrying value | Fair value | Carrying value | Fair value |
| **Financial liabilities:** | | | | |
| *Other financial liabilities* | | | | |
| Trade and other payables (Note 14) | P63,077,096 | P63,077,096 | P182,883,129 | P182,883,129 |
| Loans payable (Note 15) | 531,328,713 | 531,328,713 | 508,160,285 | 508,160,285 |
| Advances from related parties (Note 22) | - | - | 2,070,350 | 2,070,350 |
| | P594,405,809 | P594,405,809 | P693,113,764 | P693,113,764 |

Due to the short-term nature of the transactions, the carrying amounts of cash and cash equivalents, trade and other receivables, short-term loans receivables, advances to (from) related parties, trade and other payables, and short-term loans payable approximate its fair values as of the reporting date.

The fair value of the long term loans receivable from Avestha Holding Corporation is based on its carrying amount which approximates the discounted value of future cash flows using its interest rate of 6%.

The fair value of the refundable security deposit is based on the approximate discounted value of future cash flows using an interest rate of 3% on similar financial instruments with a term of three years. The difference in the fair value and the carrying value of the refundable security deposits will not materially affect the Group's financial position.

The fair value of the long term loans payable from a bank is based on its carrying amount which approximates the discounted value of future cash flows using interest rates ranging from 9.87% to 10.47%.

The income, expense, gain and/or losses recognized from financial instruments are as follows:

| | 2013 | 2012 |
|---|---|---|
| Finance costs (Note 15) | P8,037,380 | P7,940,047 |
| Finance income (Notes 8 and 10) | P2,494,742 | P831,760 |

## NOTE 5 – FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

### General objectives, policies and processes

The BOD has overall responsibility and authority for the determination of the Group's risk management objectives and policies and designing and operating processes that ensure the effective implementation of such objectives and policies. The BOD has constituted certain committees to effectively manage the operations of the Group. The Group's principal committees of the BOD include the Executive Committee, the Audit Committee, the Compensation Committee and the Nominations Committee. A brief description of the functions and responsibilities of the key committees are set out below:

*Executive Committee*

The Executive Committee is composed of three (3) members of the BOD. The Executive Committee may act by majority of all its members, on such specific matters within the competence of, and as may be delegated by the BOD.

*Audit Committee*

The Audit Committee provides an oversight of financial management functions, specifically in the areas of managing credit, liquidity, market, operational, legal and other risks and is primarily responsible for monitoring the statutory requirements of the Group. The Audit Committee is responsible for the setting up of an internal audit department and for the appointment of an internal auditor, as well as an independent external auditor. It monitors and evaluates the adequacy and effectiveness of the Group's internal control systems. It ensures that the BOD is taking appropriate corrective action in addressing control and compliance functions with regulatory agencies. It also ensures the Group's adherence to corporate principles, best practices and compliance with the Manual on Corporate Governance.

*Compensation Committee*

The Compensation Committee is primarily responsible for establishing a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of corporate officers who are receiving compensation from the Group. It is responsible for providing an oversight of remuneration of senior management and other key personnel and ensuring that compensation is consistent with the Group's culture, strategy and control environment.

*Nomination Committee*

The Nomination Committee is primarily responsible for the review and evaluation of the qualifications of all persons nominated to positions requiring appointment by the BOD and the assessment of the BOD's effectiveness in directing the process of renewing and replacing Board members.

The overall objective of the BOD is to set polices that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility.

### Financial risk management objectives and policies

The Group is exposed through its operations to credit risk, liquidity risk and market risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

The policies for managing specific risks are summarized below:

*Credit risk*

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The receivable balances are monitored on an ongoing basis with the result that the Group's exposure to impairment is not significant. The Group has a credit and collection department that is separate and independent from the sales department. The Group instituted this separate department even though the normal practice in its industry is that the sales people are also the ones who collect the receivables. The Group deals only with creditworthy counterparty duly approved by management.

The following table provides information regarding the maximum credit risk exposure of the Group as of March 31 and December 31:

| | 2013 | 2012 |
|---|---|---|
| Cash in banks and cash equivalents (Note 8) | P76,086,104 | P385,035,496 |
| Trade and other receivables (Note 9) | 242,836,465 | 242,146,197 |
| Loans receivables (Notes 10 and 22) | 129,650,000 | 129,650,000 |
| Advances to related parties (Note 22) | 50,744,358 | 41,567,329 |
| Refundable security deposit (Note 25) | 1,652,566 | 1,652,566 |
| | P500,969,493 | P800,051,588 |

The following table provides information regarding the Group's analysis of the age of financial assets by class as at the reporting date:

| | | | Past due but not impaired | | | |
|---|---|---|---|---|---|---|
| March 31,2013 | Total | Neither past due nor impaired | 31-60 days | 61-90 days | Over 90 days | Impaired |
| *Loans and receivables* | | | | | | |
| Cash in banks and cash equivalents | P76,086,104 | P76,086,104 | P- | P- | P- | P- |
| Trade and other receivables | 242,836,465 | 195,089,418 | 12,685,647 | 13,640,231 | 27,115,144 | 5,693,975 |
| Loans receivable | 129,650,000 | 129,650,000 | - | - | - | - |
| Advances to related parties | 50,744,358 | 50,744,358 | - | - | - | - |
| Refundable security deposit | 1,652,566 | 1,652,566 | - | - | - | - |
| | P500,969,493 | P453,222,443 | P12,685,647 | P13,640,231 | P27,115,144 | P5,693,975 |

| | | | Past due but not impaired | | | |
|---|---|---|---|---|---|---|
| December 31,2012 | Total | Neither past due nor impaired | 31-60 days | 61-90 days | Over 90 days | Impaired |
| *Loans and receivables* | | | | | | |
| Cash in banks and cash equivalents | P385,035,496 | P385,035,496 | P- | P- | P- | P- |
| Trade and other receivables | 242,146,196 | 194,399,149 | 12,685,647 | 13,640,231 | 27,115,144 | 5,693,975 |
| Loans receivable | 129,650,000 | 129,650,000 | - | - | - | - |
| Advances to related parties | 41,567,329 | 41,567,329 | - | - | - | - |
| Refundable security deposit | 1,652,566 | 1,652,566 | - | - | - | - |
| | P800,051,587 | P752,304,540 | P12,685,647 | P13,640,231 | P27,115,144 | P5,693,975 |

The Group's loans receivable from Avestha Holdings Corporation amounting to P120,000,000 is fully secured by the borrower's real estate properties independently valued at P166,549,000 on June 21, 2011 by Cuervo Appraisers, Inc. In exchange for the settlement of the loan, as of the reporting date, Avestha Holding Corporation is in the process of transferring to the Group the rights to the aforementioned real estate properties, pending compliance with regulatory requirements.

There were no other credit enhancements attached to the Group's financial assets aside from this collateral.

*Credit quality per class of financial assets*

The Group's bases in grading its financial assets are as follows:

High grade - These are receivables which have a high probability of collection (the counterparty has the apparent ability to satisfy its obligation and the security on the receivables are readily enforceable).

Standard - These are receivables where collections are probable due to the reputation and the financial ability of the counterparty to pay but have been outstanding for a certain period of time.

Substandard - These are receivables that can be collected provided the Group makes persistent effort to collect them.

The table below shows the credit quality by class of financial assets of the Group based on their historical experience with the corresponding parties as of March 31, 2013 and December 31, 2012:

| | March 31, 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Neither past due nor impaired | | | | | | |
| | High grade | Standard grade | Substandard grade | Unrated | Past due but not impaired | Impaired | Total |
| *Loans and receivables* | | | | | | | |
| Cash in banks and cash equivalents | P76,086,102 | P- | P- | P- | P- | P- | P76,086,102 |
| Trade and other receivables | 195,089,418 | - | - | - | 53,441,022 | 5,693,975 | 242,836,465 |
| Loans receivable | 129,650,000 | - | - | - | - | - | 129,650,000 |
| Advances to related parties | 50,744,358 | - | - | - | - | - | 50,744,358 |
| Refundable security deposit | 1,652,566 | - | - | - | - | - | 1,652,566 |
| | P453,222,444 | P- | P- | P- | P53,441,022 | P5,693,975 | P500,969,493 |

| | December 31, 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Neither past due nor impaired | | | | | | |
| | High grade | Standard grade | Substandard grade | Unrated | Past due but not impaired | Impaired | Total |
| *Loans and receivables* | | | | | | | |
| Cash in banks and cash equivalents | P385,035,496 | P- | P- | P- | P- | P- | P385,035,496 |
| Trade and other receivables | 194,399,149 | - | - | - | 53,441,022 | 5,693,975 | 242,146,196 |
| Loans receivable | 129,650,000 | - | - | - | - | - | 129,650,000 |
| Advances to related parties | 41,567,329 | - | - | - | - | - | 41,567,329 |
| Refundable security deposit | 1,652,566 | - | - | - | - | - | 1,652,566 |
| | P752,304,540 | P- | P- | P- | P53,441,022 | P5,693,975 | P800,051,587 |

The Group has no financial assets whose terms have been renegotiated.

*Liquidity risk*

This represents the risk or difficulty in raising funds to meet the Group's commitment associated with financial obligation and daily cash flow requirement. The Group is exposed to the possibility that adverse exchanges in the business environment and/or its operations would result to substantially higher working capital requirements and the subsequent difficulty in financing additional working capital.

The Group addresses liquidity concerns primarily through cash flows from operations and short-term borrowings, if necessary. The Group has credit lines with several of the top banks of the Philippines which gives it financial flexibility in its operations. The Group likewise regularly evaluates other financing instruments to broaden the Group's range of financing sources.

The following table summarizes the maturity profile of the Group's other financial liabilities as of March 31, 2013 and December 31, 2012, respectively, based on the contractual undiscounted payments:

At March 31, 2013

| | On demand | Within 1 year | More than 1 year but not more than 5 years | Total |
|---|---|---|---|---|
| Trade and other payables | **P63,077,095** | **P-** | **P-** | **P63,077,095** |
| Loans payable | **-** | **525,691,461** | **5,637,253** | **531,328,714** |
| | **P63,077,095** | **P525,691,461** | **P5,637,253** | **P594,405,809** |

At December 31, 2012

| | On demand | Within 1 year | More than 1 year but not more than 5 years | Total |
|---|---|---|---|---|
| Trade and other payables | P182,883,130 | P- | P- | P182,883,130 |
| Loans payable | - | 502,137,982 | 6,022,303 | 508,160,285 |
| Advances from related parties | 2,070,350 | - | - | 2,070,350 |
| | P184,953,480 | P502,137,982 | P6,022,303 | P693,113,765 |

*Market risk*

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: interest rate risk, foreign currency risk and commodity price risk. Financial instruments affected by market risk include bank loans payable.

*i. Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank loans payable.

*Interest rate sensitivity*

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans payable with all other variables held constant, the Group's profit before tax is affected as follows:

| | Increase/decrease interest rate | Effect on profit before tax |
|---|---|---|
| **2013** | **+1%** | **(P80,374)** |
| | **-1%** | **P80,374** |
| 2012 | +1% | (P79,400) |
| | -1% | P79,400 |

The assumed movement in interest rates for the interest rate sensitivity analysis is based on the management's assessment of the reasonably possible change in interest rates during the years presented.

*ii. Foreign currency risk*

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group is not exposed to the risks of changes in foreign exchange rates as it has not entered into transactions denominated in a currency other than its functional currency.

*iii. Commodity price risk*

Commodity price risk is the risk related to the volatility of price of certain commodities. The Group is not exposed to this risk as its operations do not constitute goods which prices are volatile.

**Capital risk management**

The Group manages its capital structure (total equity) and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust or delay the dividend payment to shareholders and appropriate a percentage of retained earnings towards expansion and capital expenditures.

The Group through the Finance function sets operational targets and performance indicators in order to assure that the capital and returns requirements are achieved. Appropriate monitoring and reporting systems accompany these targets and indicators to assess the achievement of Group goals and institute appropriate action.

No changes were made in the objectives, policies and processes in 2013 and 2012.

The Group has no externally imposed capital requirements.

## NOTE 6 – BUSINESS COMBINATION

On July 19, 2012, the Parent Company's BOD approved the conversion of its P55,455,249 worth of advances to equity shares in APC as well as the purchase of all the issued and outstanding shares of stock therein. On August 3, 2012, the SEC approved said conversion which resulted to the Parent Company owning 85.37% ownership in APC. The investing public, including all the shareholders of the Parent Company have been informed of this development through timely and complete disclosures with the SEC via the filing of the requisite SEC Form 17-C and the uploading thereof with the PSE via the PSE Online Disclosure System.

APC is a corporation established to engage in import/export, buying, selling, distributing and marketing at wholesale and retail all kinds of goods of every kind and description such as but not limited to agricultural products. The Parent Company acquired APC since the subsidiary's retail chain stores allow the Parent Company to sell its products on a significant larger area than it has previously access to, thus increasing its market share.

**Assets acquired and liabilities assumed**

The fair values of the identifiable assets and liabilities of APC as at the date of acquisition were:

| | |
|---|---|
| **Assets** | |
| Cash and cash equivalents | P21,529,109 |
| Other receivables | 606,887 |
| Inventories | 94,141,759 |
| Property and equipment | 28,045,513 |
| | 144,323,268 |
| **Liabilities** | |
| Advances from related parties | 29,944,280 |
| Trade and other payables | 47,842,868 |
| | 77,787,148 |
| **Total identifiable net assets at fair value** | **66,536,120** |
| Non-controlling interest measured at the non-controlling interest's share of the acquiree's identifiable net assets | (2,867,706) |
| Gain from bargain purchase (Note 21) | (8,213,165) |
| **Purchase consideration transferred** | **P55,455,249** |

The fair value of other receivables equals its book value. None of these receivables have been impaired and it is expected that the full contractual amounts can be collected.

From the date of acquisition, APC has contributed P608,219,477 of revenue and P22,428,329 to the profit before tax from continuing operations of the Group.

On September 30, 2012, the Parent Company completed the acquisition of 100% ownership over APC. Cash consideration of P9,500,000 was paid to all the minority shareholders comprising 14.63% of the issued and outstanding capital stock of APC.

The carrying value of the net assets of APC at the acquisition date was P68,696,134, and the carrying value of the additional interest acquired was P2,867,706. The difference of P6,632,294 between the consideration and the carrying value of the interest acquired has been recognized in retained earnings within equity.

## NOTE 7 – SEGMENT REPORTING

The CEO is the Group's chief operating decision-maker. Management has determined the operating segments based on the reports reviewed by the CEO that are used to make strategic decisions.

The CEO considers the business based on the methods used to distribute the Group's products. Management considers the performance based on the three methods used by the Group, distributorship and retailing of agro-products and farming operations.

The reportable operating segments of distributorship and retailing derive its revenue primarily from different agro-products such as feeds, seeds, chemicals and fertilizers. The revenue of the reportable segments arises both from a related party and external customers. Transfer prices between the related party are set on an arm's length basis in a manner similar to transactions with third parties. Such transfers are eliminated in consolidation. The Group has yet to earn revenues from its farming operations.

The operating segments are organized and managed separately according to the different methods used to distribute the Group's products, with each segment representing a strategic business unit that offers the same types of products sold either through wholesale or retail or used in farming operations. These divisions are the basis on which the Group reports its primary segment information. All operating business segments used by the Group meet the definition of a reportable segment under PFRS 8, *Operating Segments*.

The CEO assesses the performance of the operating segments based on a measure of Earnings Before Interests, Taxes and Depreciation and Amortization (EBITDA). This measurement basis excludes the effects of non-recurring expenditure from the operating segments and common operating expenses. Interest expense is not allocated to segments, as this type of activity is driven by the central treasury function, which manages the cash position of the Group. Transfer prices between operating segments, if any, are on an arm's length basis in a manner similar to transactions with third parties.

*Segment assets and liabilities*

Segment assets include all operating assets used by a segment and consist principally of operating cash, receivables and inventories. Segment liabilities include all operating liabilities and consist principally of trade and other payables. Segment assets and liabilities do not include deferred income taxes.

*Segment transactions*

Segment sales, expenses and performance include sales and purchases with a related party and third parties. Intercompany balances and transactions between segments, if any, are eliminated during the preparation of the Group's consolidated financial statements.

The segment information provided to the CEO for the years ended March 31, 2013 and 2012 is as follows (amounts in thousands):

| | Distribution | | Retail | | Farming | | Unallocated expenses | |
|---|---|---|---|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 | **2013** | 2012 | **2013** | 2012 |
| Sales | **P294,317** | P570,445 | **P193,827** | P- | **P-** | P- | **P-** | P- |
| Cost of sales | **(258,377)** | (507,240) | **(168,419)** | - | **-** | - | **-** | - |
| Other operating income | **952** | 332 | **-** | - | **-** | - | **-** | - |
| Operating expenses | **(19,658)** | (17,054) | **(9,919)** | - | **-** | - | **-** | - |
| Finance income | **2,495** | 832 | **-** | - | **-** | - | **-** | - |
| Finance costs | **-** | - | **-** | - | **-** | - | **(8,037)** | (7,940) |
| Provision for income tax | **(3,530)** | (11,666) | **(4,647)** | - | **-** | - | **-** | - |
| Profit (loss) for the year | **P16,199** | 35,649 | **P10,842** | - | **-** | - | **(8,037)** | (7,940) |
| Interest | **-** | - | | - | **-** | - | **8,037** | 7,940 |
| Taxes | **3,530** | 11,665 | **4,647** | - | **-** | - | **-** | - |
| Depreciation and amortization | **1,364** | 1,607 | **1,891** | - | **-** | - | **-** | - |
| EBITDA | **P21,093** | P48,921 | **P17,380** | P- | **P-** | P- | **P-** | P- |

A reconciliation of the total EBITDA of the reportable segments to the Group's profit for the year is provided as follows (amounts in thousands):

| | Total | |
|---|---|---|
| | **2013** | 2012 |
| Sales | **P488,143,877** | P570,444,579 |
| Cost of sales | **(426,796,196)** | (507,240,712) |
| Other operating income | **951,670** | 332,415 |
| Operating expenses | **(29,576,793)** | (17,054,144) |
| Finance income | **2,494,742** | 831,760 |
| Finance costs | **(8,037,380)** | (7,940,047) |
| Provision for income tax | **(8,176,725)** | (11,665,558) |
| **Profit (loss) for the year** | **P19,003,195** | P27,708,293 |
| Interest | **8,037,380** | 7,940,047 |
| Taxes | **8,176,725** | 11,665,557 |
| Depreciation and amortization | **3,254,870** | 1,607,416 |
| **EBITDA** | **P38,472,170** | P48,921,313 |

The segment assets and liabilities as of March 31, 2013 and December 31, 2012 are as follows (amounts in thousands):

| | Distribution | | Retail | | Farming | | Unallocated | |
|---|---|---|---|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 | **2013** | 2012 | **2013** | 2012 |
| Segment assets | **P491,144** | P801,575 | **P187,592** | P165,989 | **P281,357** | P242,533 | **P463,956** | P286,672 |
| Segment liabilities | **P18,484** | P152,275 | **P100,520** | P80,440 | **P-** | P71,700 | **P537,125** | P443,437 |
| Additions to property and equipment | **P6,124** | P71,730 | **P658** | P22,369 | **P17,536** | P192,156 | **P-** | P- |

The total reportable segments' assets are reconciled to the Group's total assets as follows:

| | **2013** | 2012 |
|---|---|---|
| Reportable segments' assets | **P960,092,875** | P1,210,096,978 |
| Unallocated: | | |
| Loans receivable (Note 10) | **129,650,000** | 129,650,000 |
| Advances to related parties (Note 22) | **218,759,267** | 41,567,329 |
| Investment properties (Note 12) | **112,865,000** | 112,865,000 |
| Deferred tax assets (Note 24) | **2,681,617** | 2,589,764 |
| | **P1,424,048,759** | P1,496,769,071 |

The total reportable segments' liabilities are reconciled to the Group's total liabilities as follows:

| | **2013** | 2012 |
|---|---|---|
| Reportable segments' liabilities | **P119,003,657** | P304,414,843 |
| Unallocated: | | |
| Loans payable (Note 15) | **531,328,713** | 436,460,285 |
| Advances from related parties (Note 22) | **-** | 2,070,350 |
| Retirement benefit (Note 23) | **3,244,748** | 2,938,573 |
| Deferred tax liabilities (Note 24) | **2,551,425** | 1,968,000 |
| | **P656,128,543** | P747,852,051 |

The amounts provided to the CEO with respect to total assets and total liabilities are measured in a manner consistent with that of the consolidated financial statements.

The reportable segments' assets are allocated based on the operations of the segment and the physical location of the assets. The Group's loans receivable, advances to related parties, investment properties and deferred tax assets are not considered as segment assets.

The reportable segments' liabilities are allocated based on the operations of the segment. The Group's loans payable, advances from related parties, dividends payable and retirement benefit liability are not considered as segment liabilities.

Unallocated assets and liabilities are managed by the central treasury function.

The Group does not have revenues from transactions with a single external customer amounting to ten percent (10%) or more of the Group's total revenues.

## NOTE 8 - CASH AND CASH EQUIVALENTS

The account consists of:

| | **2013** | 2012 |
|---|---:|---:|
| Cash on hand | **P322,944** | P10,468,281 |
| Cash in banks | **56,086,104** | 365,035,496 |
| Cash equivalents | **20,000,000** | 20,000,000 |
| | **P76,409,048** | P395,503,777 |

Cash in banks earns interest at the respective bank deposit rates. Interest income earned from bank deposits amounted to P549,992 and P831,760 for the three-month periods ended March 31, 2013 and 2012, respectively.

## NOTE 9 – TRADE AND OTHER RECEIVABLES, NET

The account consists of:

| | **2013** | 2012 |
|---|---:|---:|
| Trade receivables | **P224,098,759** | P228,717,028 |
| Advances to suppliers | **6,519,531** | 3,744,493 |
| Accrued interest on loans receivable (Note 10) | **11,109,750** | 9,165,000 |
| Advances to employees | **1,773,420** | 1,552,196 |
| Other receivables | **5,028,980** | 4,661,455 |
| | **248,530,440** | 247,840,172 |
| Allowance for impairment loss on trade receivables | **(5,693,975)** | (5,693,975) |
| | **P242,836,465** | P242,146,197 |

Trade receivables are from dealers and customers of the Group and are not interest-bearing. Normal credit terms of trade receivables are 30 days and 60 days.

Advances to suppliers represent advanced payments made to suppliers for purchases of goods. These are deducted from the purchase price upon receipt of the goods.

Advances to employees are subject to liquidation upon utilization.

The Group provided for an allowance for impairment loss on trade receivables amounting to P5,693,975 as of March 31, 2013 and December 31, 2012. Details of changes in allowance for impairment loss of receivables are as follows:

| | **2013** | 2012 |
|---|---|---|
| Beginning | **P5,693,975** | P4,375,816 |
| Provision during the three-month period ended March 31, 2013 and for year ended December 31, 2012 | - | 1,318,159 |
| Ending | **P5,693,975** | P5,693,975 |

## NOTE 10 – LOANS RECEIVABLE

The details of and movements in the account are as follows:

| Borrower | Interest rate | Term | Security | Balance at January 1, 2012 | Availments (collections) during the year | Balance at December 31, 2012 | Availments (collections) during the three-month period | **Balance at March 31, 2013** |
|---|---|---|---|---|---|---|---|---|
| Avestha Holdings Corporation (i) | 6% per annum | 3 years | Real estate properties | P120,000,000 | P- | P120,000,000 | P- | **P120,000,000** |
| Andres Lipana (ii) | 6% per annum | 1 year, renewable | Unsecured | 15,000,000 | (5,350,000) | 9,650,000 | - | **9,650,000** |
| Total | | | | P135,000,000 | (P5,350,000) | P129,650,000 | P- | **P129,650,000** |
| Less: Current portion | | | | 15,000,000 | | 9,650,000 | | **9,650,000** |
| Loans receivable, net of current portion | | | | P120,000,000 | | P120,000,000 | | **P120,000,000** |

i) On September 26, 2011, the Group granted a loan to Avestha Holding Corporation, a related party (see Note 22), amounting to P120,000,000 for a term of three (3) years. The principal of the loan will be payable after two (2) years in which an interest at the rate of six percent (6%) will be payable on the balance at the end of every month. The loan is fully secured by the borrower's various real estate properties independently valued by Cuervo Appraisers, Inc. at P166,549,000. This loans receivable is presented under noncurrent assets in the consolidated statements of financial position. In exchange for the settlement of the loan, as of the reporting date, Avestha Holding Corporation is in the process of transferring to the Group the rights to the aforementioned real estate properties, pending compliance with regulatory requirements.

ii) On November 4, 2010, the Group granted a loan to Andres Lipana amounting to P15,000,000 for a term of one (1) year, renewable annually upon mutual agreement of both parties. The principal of the loan is subject to an interest at the rate of 6 percent (6%) payable at the end of every month. In 2012 and 2011, the loan is renewed with the same terms and conditions. This loan receivable is presented under current assets in the consolidated statements of financial position.

Interest income earned from these loans amounted to P1,944,750 and Nil for the three-months period ended March 31, 2013 and 2012, respectively.

## NOTE 11 – INVENTORIES

The account consists of:

| | **2013** | 2012 |
|---|---|---|
| Chemicals | **P195,321,586** | P159,003,786 |
| Feeds | **14,911,858** | 18,347,804 |
| Fertilizers | **31,574,624** | 20,005,070 |
| Seeds | **29,822,389** | 23,127,040 |
| | **P271,630,457** | P220,483,700 |

The above inventories are carried at the lower of cost and NRV. The Group has no unusual purchase commitments or inventories pledged as security for liabilities.

## NOTE 12 – INVESTMENT PROPERTIES

During 2011, the Group acquired various lands amounting to P134,592,963. The acquisition value is based on the valuation report dated June 21, 2011 conducted by an independent appraiser who holds a recognized and relevant professional qualification and has experience in the location and category of the investment property being valued. The Group applies the cost model in its investment properties. Management believes that the carrying amounts of the said properties approximate the fair values as of reporting date.

During 2012, the Group reclassified investment properties amounting to P21,287,963 to property and equipment. The land will be used as a large scale farm for the Group's livestock farming operations (see Note 13).

The reconciliation of the carrying amount of investment properties at the beginning and end of the period is as follows:

| | **2013** | 2012 |
|---|---|---|
| At January 1 | **P112,865,000** | P134,152,963 |
| Transfer to property and equipment (Note 13) | **-** | (21,287,963) |
| At March 31 and December 31 | **P112,865,000** | P112,865,000 |

## NOTE 13 – PROPERTY AND EQUIPMENT, NET

The details of and movements in this account are as follows:

| | Office equipment | Transportation equipment | Leasehold improvement | Farmlands | Construction In progress | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At January 1, 2012 | P2,186,439 | P27,088,640 | P- | P- | P50,376,897 | P79,651,976 |
| Additions | 8,850,838 | 13,478,031 | 25,198,217 | - | 192,156,097 | 239,683,183 |
| Transfer from investment properties (Note 12) | - | - | - | 21,287,963 | - | 21,287,963 |
| Acquisitions through business combinations | 3,335,799 | 1,221,618 | 20,726,509 | - | - | 25,283,926 |
| Disposals | - | (3,320,000) | - | - | - | (3,320,000) |
| At December 31, 2012 | 14,373,076 | 38,468,289 | 45,924,726 | 21,287,963 | 242,532,994 | 362,587,048 |
| Additions | - | 6,602,134 | - | - | 17,535,860 | 24,137,994 |
| Disposals | (3,494,671) | - | (134,850) | - | - | (3,629,521) |
| At March 31, 2013 | 10,878,405 | 45,070,423 | 45,789,876 | 21,287,963 | 260,068,854 | 383,095,521 |
| **Accumulated depreciation and amortization** | | | | | | |
| At January 1, 2012 | 629,864 | 6,256,792 | - | - | - | 6,886,656 |
| Depreciation and amortization | 2,360,582 | 6,072,239 | 5,143,502 | - | - | 13,576,323 |
| Disposals | - | (3,320,000) | - | - | - | (3,320,000) |
| At December 31, 2012 | 2,990,446 | 9,009,031 | 5,143,502 | - | - | 17,142,979 |
| Depreciation and amortization | 637,429 | 791,251 | 1,826,190 | - | - | 3,254,870 |
| Disposals | - | - | - | - | - | - |
| At March 31, 2013 | 3,627,875 | 9,800,282 | 6,969,692 | - | - | 20,397,849 |
| **Net book values** | | | | | | |
| March 31, 2013 | P7,250,530 | P35,270,141 | P38,820,184 | P21,287,963 | P260,068,854 | P362,697,672 |
| December 31, 2012 | P11,382,630 | P29,459,258 | P40,781,224 | P21,287,963 | P242,532,994 | P345,444,069 |

During the three-month period ended March 31, 2013 and the year ended December 31, 2012, the Group capitalized expenditures amounting to P260,068,584 and P242,532,994, respectively, related to properties under construction. These expenditures consist of farm equipments, materials, labor and overhead directly related to the construction of the assets. The Group had not capitalized any borrowing costs attributable to the construction of such assets.

The Group's transportation equipment is subject to a chattel mortgage used as security for the long-term loans payable (see Note 15).

Aside from the abovementioned chattel mortgage, there are neither restrictions on title on the Group's property and equipment nor was any of it pledged as security for liability. The Group has no contractual commitment for the acquisition of property and equipment.

Depreciation and amortization expense amounted to P3,254,870 and P1,607,416 for the three-month periods ended March 31, 2013 and 2012, respectively (see Note 20).

The cost of fully depreciated property and equipment still in use amounted to P23,757,079 in March 31, 2013 and December 31, 2012, respectively.

Management has reviewed the carrying values of the Group's property and equipment as of March 31, 2013 and December 31, 2012 for impairment. Based on the results of its evaluation, there were no indications that the property and equipment were impaired.

## NOTE 14 – TRADE AND OTHER PAYABLES

The account consists of:

| | **2013** | 2012 |
|---|---|---|
| Trade payables | **P63,077,096** | P182,883,129 |
| Others | **2,611,940** | 4,045,075 |
| | **P65,689,036** | P186,928,204 |

Trade payables are from suppliers of agro-products and are non-interest-bearing. Normal credit terms are 30 to 60 days.

Other payables mainly consist of the one percent (1%) tax withheld by the Group on its collections from customers.

## NOTE 15 – LOANS PAYABLE

The loans payable as of March 31, 2013 and December 31, 2012 consist of secured short-term and long-term peso denominated loans obtained from local banks.

The secured short-term peso-denominated loans were obtained to augment the Group's funding for its farming operations. Various properties owned by the shareholders were used as collateral for these types of loans. The details of and movements in these loans are as follows:

| Lending institution | Interest rate | Terms | Security | Balance at January 31, 2012 | Payments during the year | Availments during the year | Balance at December 31, 2012 | Availments during the year | Payments during the three-month period | **Balance at March 31, 2013** |
|---|---|---|---|---|---|---|---|---|---|---|
| Banco de Oro Unibank Inc. | Prevailing interest rate | Renewable | Unsecured | P150,000,000 | P- | P4,000,000 | P154,000,000 | P16,000,000 | **P-** | **P170,000,000** |
| Metropolitan Bank and Trust Company | Prevailing interest rate | Renewable | Real estate properties | 52,500,000 | - | 7,500,000 | 60,000,000 | - | **(15,000,000)** | **45,000,000** |
| Allied Bank | Prevailing interest rate | Renewable | Unsecured | 25,000,000 | (25,000,000) | - | - | - | **-** | **-** |
| Bank of the Philippine Islands | Prevailing interest rate | Renewable | Suretyship | 165,000,000 | - | 5,000,000 | 170,000,000 | - | **(5,000,000)** | **165,000,000** |
| Planters Bank | Prevailing interest rate | Renewable | Deed of Assignment | - | - | 45,000,000 | 45,000,000 | 5,000,000 | **-** | **50,000,000** |
| Development Bank of the Philippines | 9% | Renewable | Real estate properties | - | - | 71,700,000 | 71,700,000 | 22,900,000 | **(383,333)** | **94,216,667** |
| | | | | P392,500,000 | (P25,000,000) | P133,200,000 | P500,700,000 | P43,900,000 | **(P20,383,333)** | **P524,216,667** |

Finance costs arising from these loans amounted to P7,849,927 and P7,940,047 in March 31, 2013 and 2012, respectively.

The secured long-term peso-denominated loans were obtained to finance the Group's acquisition of transportation equipment. These loans are secured by a chattel mortgage on the Group's transportation equipment with a carrying amount of P8,561,421 (see Note 13). The details of and movements in these loans are as follows:

| Lending institution | Interest rate | Terms | Security | Balance at January 1, 2012 | Payments during the year | Availments during the year | Balance at December 31, 2012 | Payments during the year | **Balance at March 31, 2013** |
|---|---|---|---|---|---|---|---|---|---|
| Bank of the Philippine Islands | 9.87%-10.47% | 30 or 60 equal monthly installments | Chattel mortgage | P- | (P494,825) | P7,955,110 | P7,460,285 | (P348,239) | **P7,112,046** |
| Less: Current portion | | | | | | | (1,437,982) | | **(1,474,794)** |
| Long-term loans payable, net of current portion | | | | | | | P6,022,303 | | **P5,637,252** |

Finance costs arising from these loans amounted to P187,453 and Nil for the three-month period ended March 31, 2013 and 2012.

There were no breaches of loan agreement terms such as any defaults of principal and interest of these loans payable during the period.

## NOTE 16 - SHARE CAPITAL

The account consists of:

| | 2013 | 2012 |
|---|---|---|
| Authorized: | | |
| 845,400,000 shares at P1 par value each | **P845,400,000** | P845,400,000 |
| Issued and outstanding at January 1: | | |
| 360,112,000 shares at P1 par value each in 2013, and 324,100,000 shares at P1 par value each in 2012 | **P360,112,000** | P324,100,000 |
| Issued during the year: | | |
| 36,012,000 shares in 2012 at P1 par value each | **-** | 36,012,000 |
| Issued and outstanding at December 31: | | |
| 360,112,000 shares at P1 par value each | **P360,112,000** | P360,112,000 |

On May 23, 2012, the Group issued 36,012,000 shares by way of a primary offer. The share premium resulting from the said offer is as follows:

| | |
|---|---|
| **Gross proceeds** | **P269,551,028** |
| Underwriting and selling fees for the offer shares | 8,102,700 |
| Tax on Initial Public Offering | 10,782,041 |
| Documentary Stamp Tax | 180,060 |
| Philippine SEC filing and legal research fees | 733,991 |
| Professional fees | 4,582,587 |
| **Total expenses** | **24,381,379** |
| **Net proceeds** | **245,169,649** |
| Par value of offer shares | **(36,012,000)** |
| | **P209,157,649** |

Share premium arises when the amount subscribed for share capital is in excess of nominal value.

## NOTE 17 – DIVIDENDS

On a meeting held on November 18, 2011, the BOD unanimously approved the declaration of cash dividends in the amount of Twenty Five Million Pesos (P25,000,000) to shareholders of record as of November 8, 2011, subject to the condition on the availability of unrestricted retained earnings to cover said dividend declaration. These dividends were paid in 2012 through offsetting of its advances to its shareholders (see Note 22). The dividend per share is P0.07.

## NOTE 18 – SALES

The account consists of:

| | 2013 | 2012 |
|---|---|---|
| Feeds | **P150,464,911** | P152,451,183 |
| Chemicals | **159,443,756** | 146,858,243 |
| Fertilizers | **148,104,825** | 109,254,597 |
| Seeds | **30,130,385** | 4,723,210 |
| Others | **-** | 157,157,346 |
| | **P488,143,877** | P570,444,579 |

The Group has an existing Complementary Feeds Distributorship Agreement (the Agreement) with San Miguel Foods, Inc. (SMFI) wherein the parties agreed that the Group will exclusively distribute in Bulacan B-MEG Feeds. The Agreement is valid for one year and shall be automatically renewed upon expiry with the same terms and conditions except as may be agreed by the parties in writing, unless SMFI notifies the Group in writing of its intent to terminate the Agreement within 60 days prior to the end of the term.

The Group also has distributorship agreements with Monsanto Philippines, Gastin Corporation and Syngenta Philippines, Inc. for the exclusive distribution in Luzon of the products sold by the said parties. The Group has other distributorship agreements but on a non-exclusive basis. In general, all supply and distribution agreements are renewed on a yearly basis. Renewal may be express when parties opt to execute a written agreement or implied when parties continue to do business dealings with each other such as taking of orders of supplies. The Group does not usually have duly executed distribution agreements with the rest of its suppliers of agro chemicals, fertilizers and seeds. Furthermore, based on industry practice, actual exclusive distribution agreements are not issued on a yearly basis. In the case of non-exclusive distribution agreements, no formal agreement is executed except for some. Instead, certifications are issued to attest that the Group is a distributor of the pertinent supplier products indicating therein exclusivity or non-exclusivity. However, for other non-exclusive suppliers, certifications are not even given since supply of the products continues for so long as the Group places an order.

**The Group's revenue may be affected by any program developed or supported by the Department of Agriculture of the Philippines**

The Group's revenue comes primarily from the sale of agricultural products. Any agricultural program that the Department of Agriculture develops for the farmers of the country may affect the Group's revenue. In the event that the government is unable to effectively implement its programs, this might result in a slowdown of the Group's business as farmers might not have the required resources to purchase the Group's products. There is no guarantee that the Philippine government will not change or prioritize programs for agriculture in the coming years.

To mitigate this risk, the Group updates itself regularly with the Department of Agriculture's policies or programs developed for the agricultural product industry. This allows the Group to react quickly to government programs relating to agricultural products. It also enables the Group to plan ahead to meet the Department of Agriculture's ongoing or future policies or programs.

The Group also conducts its own marketing activities to promote the use or consumption of its product. The Group intends to strengthen its marketing efforts nationwide.

**Risk of natural calamities**

The Group's revenues are highly dependent on the weather conditions in the Philippines. Severe drought or flooding in a certain agricultural region will significantly affect the productivity of the farmers. This will highly affect the demand for fertilizers, pesticides and other agricultural chemicals.

To mitigate this risk, the Group in partnership with its key suppliers would distribute new products manufactured through the use of modern technology to withstand if not totally resist the devastating effects brought by forces of nature. In addition, the Group distributes other agricultural products which are unaffected by natural calamities such as animal feeds for poultry, hogs and ducks.

**Risk of outbreak of animal diseases**

The Group's revenues may be affected by the outbreak of swine and poultry diseases because the demand for animal feeds decreases in case an outbreak happens.

To mitigate this risk the Group, in partnership with its key suppliers, currently deploys farm assistant technicians in the field to prevent and/or treat swine and poultry diseases. In addition, the Group also distributes veterinary medicines that help prevent or treat the said diseases.

## NOTE 19 – COST OF SALES

The account consists of:

| | 2013 | 2012 |
|---|---|---|
| Inventories, beginning | **P220,483,700** | P179,835,048 |
| Net purchases | **477,942,953** | 547,889,364 |
| Cost of goods available for sale | **698,426,653** | 727,724,412 |
| Inventories, ending (Note 11) | **271,630,457** | 220,483,700 |
| | **P426,796,196** | P507,240,712 |

## NOTE 20 – OPERATING EXPENSES

The account consists of:

| | 2013 | 2012 |
|---|---|---|
| Salaries, wages and benefits | **P8,673,953** | P4,830,796 |
| Rental (Note 25) | **5,245,459** | 1,159,300 |
| Depreciation and amortization (Note 13) | **3,254,870** | 1,607,416 |
| Marketing | **1,887,418** | 401,296 |
| Transportation and travel | **1,771,921** | 1,630,948 |
| Professional fees | **1,553,103** | 2,617,502 |
| Communication, light and water | **1,265,434** | 598,690 |
| Taxes and licenses | **1,019,097** | 786,697 |
| Commissions | **734,128** | 229,346 |
| Representation and entertainment | **673,883** | 277,581 |
| Repairs and maintenance | **607,404** | 641,874 |
| Association dues | **547,640** | - |
| Office supplies | **406,021** | 245,742 |
| Retirement benefit costs (Note 23) | **306,174** | 444,598 |
| Insurance | **272,209** | 199,120 |
| Others | **1,358,079** | 1,383,238 |
| | **P29,576,793** | P17,054,144 |

## NOTE 21 – OTHER OPERATING INCOME, NET

The account consists of:

| | 2013 | 2012 |
|---|---|---|
| Rebate income | **P951,670** | P11,000 |
| Others | **-** | 321,415 |
| | **P951,670** | P332,415 |

NOTE 22 – RELATED PARTY TRANSACTIONS

Related party relationships exist when one party has the ability to control, directly or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting enterprise, or between and/or among the reporting enterprises and their key management personnel, directors or its shareholders.

The details of the Group's related parties are summarized as follows:

| Name of the related party | Relationship | Nature of Operations |
|---|---|---|
| Calata Builders | Under common control | A corporation established in the Philippines which ventures as a subcontractor and into the realty business |
| Calata Farms | Under common control | A sole proprietorship owned by major shareholders of the Company which offers high efficiency poultry growing using climate-controlled system |
| Avestha Holdings Corporation | Under common control | A corporation engaged in holding of shares of different corporations |
| Individuals | Shareholders | Individuals who own shares of the Parent Company |
| Individuals | Key management personnel | Individuals who have authority and responsibility for planning, directing and controlling the activities of the Group |

Significant transactions and outstanding balances with related parties are as follows:

Transactions

| Related parties | Relationship | Rent expense (i) 2013 | Rent expense (i) 2012 | Key management personnel compensation (ii) 2013 | Key management personnel compensation (ii) 2012 | Cash advances to (from) (iii) 2013 | Cash advances to (from) (iii) 2012 |
|---|---|---|---|---|---|---|---|
| Individuals | Key management personnel | **P-** | P- | **P1,374,842** | P1,493,524 | **P-** | P- |
| Individuals | Shareholders | **-** | - | **-** | - | **178,649,818** | (2,072,545) |
| Calata Builders | Under common control | **-** | - | **-** | - | **(1,457,880)** | - |
| | | **P-** | P- | **P1,374,842** | P1,493,524 | **P177,191,938** | (P2,072,545) |

Outstanding balances

| Related parties | Relationship | Loans receivable (iv) 2013 | Loans receivable (iv) 2012 | Terms and conditions | Security | Nature of consideration to be provided upon settlement | Guarantees given or received | Allowance for impairment loss | Impairment loss |
|---|---|---|---|---|---|---|---|---|---|
| Avestha Holdings Corporation | Under common control | **P120,000,000** | P120,000,000 | 3 years, 6% per annum | Real estate properties | Cash | N/A | **P-** | P- |

| Related parties | Relationship | Advances to related parties (v) 2013 | Advances to related parties (v) 2012 | Terms and conditions | Security | Nature of consideration to be provided upon settlement | Guarantees given or received | Allowance for impairment loss | Impairment loss |
|---|---|---|---|---|---|---|---|---|---|
| Calata Builders | Under common control | **P5,363,712** | 6,821,592 | None | Unsecured | Cash | N/A | **-** | - |
| Individuals | Shareholder | **170,144,322** | 34,745,737 | None | Unsecured | Cash | N/A | **-** | - |
| | | **P175,508,034** | P41,567,329 | | | | | **P-** | P- |

| Related parties | Relationship | Advances from related parties (vii) 2013 | Advances from related parties (vii) 2012 | Terms and conditions | Security | Nature of consideration to be provided upon settlement | Guarantees given or received |
|---|---|---|---|---|---|---|---|
| Individuals | Shareholder | **P-** | P2,070,350 | None | Unsecured | N/A | N/A |

i) An operating lease agreement was executed between the Group and the shareholders whereby the latter granted the former with the rent-free use of office premises and a warehouse located in Bulacan (see Note 25).

ii) The key management personnel compensation recognized in salaries, wages and other benefits under operating expenses in the consolidated statements of income consists of short-term benefits. There are no long term compensation and post-employment and termination benefits of key management personnel for the three-month periods ended March 31, 2013 and 2012.

Movements of the outstanding balances showing the nature and amount of transactions under each category are as follows:

iii) Loans receivable

| | **2013** | 2012 |
|---|---|---|
| Avestha Holdings Corporation | | |
| January 1 | **P120,000,000** | P120,000,000 |
| Loaned to | **-** | - |
| March 31 and December 31 | **P120,000,000** | P120,000,000 |

The term of the loan is three (3) years. The principal of the loan will be payable after two (2) years in which an interest at the rate of six percent (6%) per annum will be payable on the balance at the end of every month. The loan is fully secured by the borrower's various real estate properties independently valued at P166,549,000 on June 21, 2011 by Cuervo Appraisers, Inc. In exchange for the settlement of the loan, as of the reporting date, Avestha Holding Corporation is in the process of transferring to the Group the rights to the aforementioned real estate properties, pending compliance with regulatory requirements.

iv) Advances to related parties

| | **2013** | 2012 |
|---|---|---|
| Agri Phil Corporation | | |
| January 1 | **P-** | P55,455,249 |
| Cash advances to | **-** | (55,455,249) |
| December 31 | **-** | - |
| Calata Builders | | |
| January 1 | **6,821,592** | 7,725,347 |
| Cash advances to (collections from) | **(1,457,880)** | (903,755) |
| December 31 | **5,363,712** | 6,821,592 |
| Individuals | | |
| January 1 | **34,745,737** | 3,315,016 |
| Cash advances to | **178,652,013** | 57,643,729 |
| Cash advances from | **(2,195)** | (1,213,008) |
| Cash dividends distributed | **-** | (25,000,000) |
| December 31 | **213,395,555** | 34,745,737 |
| Total advances to related parties | **P218,759,267** | P41,567,329 |

Cash advances were made to related parties to support their operating capital requirements. These are repayable once the related parties have sufficient cash flows to support their respective operations. Cash advances were made to individual shareholders for the respective shareholders' investment in entities for which the Company has the option to purchase in the future. These investments are in line with the Company's expansion programs. These advances are normally non-interest bearing, unsecured and have no fixed repayment terms. For the three-month period ended March 31, 2013, the Company made advances to shareholders amounting to P168,014,909 which are subject to liquidation upon utilization.

v) The assessment of the allowance for impairment loss related to the amount of outstanding balances of the Group's loans receivable and advances to related parties and the expense recognized during the period in respect of impairment loss is undertaken through examining the financial position of the related parties and the market in which they operate.

vi) Advances from related parties

| | **2013** | 2012 |
|---|---|---|
| Individuals | | |
| January 1 | **(P2,070,350)** | (P52,461,454) |
| Cash advances from | **-** | (68,890,289) |
| Cash advances to | **2,070,350** | 119,281,393 |
| | **P-** | (P2,070,350) |

Cash advances from shareholders are used to support the operating capital requirements of the Group.

## NOTE 23 - RETIREMENT BENEFIT COSTS

The Group maintains an unfunded, non-contributory defined benefit retirement plan covering all qualified employees. Normal retirement benefits are equal to the employee's retirement pay as defined in Republic Act No. 7641 multiplied by his years of service. Normal retirement date is the attainment of age 60 and completion of at least five years of service.

The following tables summarize the components of net retirement benefit cost recognized in the consolidated statement of income and the amounts recognized in the consolidated statements of financial position:

Net retirement benefit costs presented under operating expense are as follows:

| | **2013** | 2012 |
|---|---|---|
| Current service cost | **P246,411** | P347,571 |
| Interest cost | **59,763** | 97,027 |
| | **P306,174** | P444,598 |

Components of net retirement benefit liability and the amounts recognized in the consolidated statements of financial position are as follows:

| | **2013** | 2012 |
|---|---|---|
| Present value of defined benefit obligation | **P5,458,168** | P1,820,747 |
| Unrecognized actuarial gain | **(2,213,420)** | 1,117,826 |
| | **P3,244,748** | P2,938,573 |

Present value of defined benefit obligation is as follows:

| | **2013** | 2012 |
|---|---|---|
| Balance at January 1 | **P5,151,994** | P2,008,832 |
| Actuarial loss | **-** | 2,025,336 |
| Interest cost | **59,763** | 985,645 |
| Current service cost | **246,411** | 132,181 |
| Balance at December 31 | **P5,458,168** | P5,151,994 |

The principal assumptions used in determining retirement benefit liability of the Group are shown below:

| | **2013** | 2012 |
|---|---|---|
| Discount rates | 4.64% | 5.62% |
| Future salary increase rates | 5.00% | 5.00% |

**NOTE 24 – INCOME TAXES**

a. The components of the Group's provision for income tax are as follows:

| | **2013** | 2012 |
|---|---|---|
| Current | **P7,685,152** | P11,798,937 |
| Deferred | **491,573** | (133,379) |
| | **P8,176,725** | P11,665,558 |

b. The components of the Group's deferred tax assets are as follows:

| | Balance at January 1, 2012 | Charged to operations during the period | Balance at December 31, 2012 | Charged to operations during the year | **Balance at March 31, 2013** |
|---|---|---|---|---|---|
| Allowance for impairment losses on trade receivables | P1,312,745 | P395,448 | P1,708,193 | P- | **P1,708,193** |
| Retirement benefit liability | 546,224 | 335,347 | 881,571 | 91,853 | **973,424** |
| | P1,858,969 | P730,795 | P2,589,764 | P91,853 | **P2,681,617** |

The Group reviews deferred tax assets at each reporting date and recognizes these to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Deferred tax assets were recognized as of March 31, 2013 and December 31, 2012 as management believes that the carryforward benefit would be realized in its future operations.

c. The components of the Group's deferred tax liabilities are as follows:

| | Balance at January 1, 2012 | Charged to operations during the period | Balance at December 31, 2012 | Charged to operations during the year | **Balance at March 31, 2013** |
|---|---|---|---|---|---|
| Movement in accrued interest | P- | P1,893,000 | P1,893,000 | P583,425 | **P2,476,425** |
| Unrealized gain on disposal of equipment | - | 75,000 | 75,000 | - | **75,000** |
| | P- | P1,968,000 | P1,968,000 | P583,425 | **2,551,425** |

d. The reconciliation of the provision for income tax computed at the statutory income tax rate to provision for income tax shown in the consolidated statement of income are as follows:

| | **2013** | 2012 |
|---|---|---|
| Income tax computed at 30% | **P8,153,976** | P11,812,155 |
| Add (deduct) income tax effects resulting from: | | |
| Non-deductible expenses | **187,747** | 102,930 |
| Income subjected to final tax | **(164,998)** | (249,527) |
| | **P8,176,725** | P11,665,558 |

**NOTE 25 – LEASE AGREEMENTS**

The Group has entered into various lease agreements with different individuals for the lease of warehouses located in various provinces in Central Luzon, all of which fall under the category of operating leases. The lease agreements are renewable every year where terms and conditions are subject to the agreement of both parties. The Group has entered in a lease agreement with its shareholders for the lease of office premises and warehouse located in Bulacan. The said lease is rent-free and renewable every year upon mutual agreement by the parties (see Note 22).

On August 1, 2012, the Group entered into a lease agreement with KSA Realty Corporation for the lease of its office premises in Makati. The terms of the lease is for three (3) years and is subject to annual escalation rate of ten (10) percent. The lease agreement has a renewal option. The details of the security deposit and advanced rental on this lease agreement are as follows:

| | Terms and conditions | **2013** | 2012 |
|---|---|---|---|
| Refundable security deposit | Equivalent to three (3) months' lease payment and refundable at the end of the lease term | **P1,652,566** | P1,652,566 |
| Advanced rental | Equivalent to three (3) months' lease payment and to be applied on the last three months of the lease term | **1,652,566** | 1,652,566 |
| | | **P3,305,132** | P3,305,132 |

The refundable security deposit and the advanced rental are recognized in the consolidated statements of financial position under other non-current assets.

There were no restrictions imposed by these lease arrangements such as those concerning dividends, additional debt and further leasing.

The rent expense charged to operations for the three-month periods ended March 31, 2013 and 2012 amounted to P5,245,459 and P1,159,300, respectively (see Note 20).

Future minimum annual rentals are as follows:

| | 2013 | 2012 |
|---|---|---|
| Not later than one year | **P11,241,198** | P1,206,440 |
| More than one year but not later than five years | **16,531,239** | 2- |
| | **P27,772,437** | P1,206,440 |

## NOTE 26 – EARNINGS PER SHARE

Basic EPS amounts are calculated by dividing net profit for the period attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the year.

The financial information pertinent to the derivation of the basic earnings per share for the three-month periods ended March 31, 2013 and 2012, are as follows:

| | 2013 | 2012 |
|---|---|---|
| Profit for the year attributable to ordinary equity holders of the Parent Company | **P19,003,195** | P27,708,293 |
| Weighted average number of shares outstanding | **360,112,000** | 324,100,000 |
| | **P0.05** | P0.09 |

There are no dilutive potential ordinary shares for the three-month periods ended March 31, 2013 and 2012. Therefore, the Group's basic and diluted EPS for the said periods are equal.

## NOTE 27 – EVENTS AFTER THE REPORTING DATE

On a meeting held on April 15, 2013 the BOD unanimously approved the declaration of cash dividends equivalent to 25% of the issued and outstanding shares of record as of May 17, 2013, or a total amount of Ninety Million Twenty Eight Thousand Pesos (P90,028,000) subject to the condition on the availability of unrestricted retained earnings to cover said dividend declaration.