

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 SEPTEMBER 30, 2014
2. SEC Identification Number 0199701848
3. BIR Tax Identification Code 200-302-092-000
4. Name of Issuer as specified in its charter AGRINURTURE, INC.
5. METRO MANILA, PHILIPPINES (NCR)
Province, country or other jurisdiction of incorporation or organization
6. Industry Classification Code: (SEC Use Only)
7. NO. 54 NATIONAL ROAD, DAMPOL II-A, PULILAN, BULACAN PHILIPPINES 3005
Address of issuer's principal office Postal Code
8. Issuer's telephone number, area code (02) 551-0772 to 74
9. Former name, former address and former fiscal year, if changed since last report N. A.
10. Securities registered pursuant to Section 8 and 12 of the SRC or Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding or Amount of Debt Outstanding
Common Shares,	<u>621,683,570 shares</u> (Authorized 1,000,000,000 shares P 1.00 Par value)

-
11. Are any or all the securities listed on the Philippine Stock Exchange?

Yes [X] No []

The company's common shares are listed in the Philippine Stock Exchange.

-
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 and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding 12 months (or for such shorter period the registrant was required to file such report)

Yes [X] No []

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

Yes [X] No []

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.

Issuer: AGRINURTURE, INC.

Signature and Title: 
PABLO B. CAPATI, JR.
President and CEO

Date: November 13, 2014

Signature and Title: 
ROMEO L. BATO
Chief Financial Officer

Date: November 13, 2014

AGRINURTURE, INC. AND SUBSIDIARIES
Securities and Exchange Commission Form 17 - Q

Part I - FINANCIAL INFORMATION

Item 1. Financial Statements

The unaudited consolidated financial statements of AgriNurture, Inc. and Subsidiaries (collectively referred to as the “ANI Group”) as of and for the period ended September 30, 2014 (with comparative figures as of December 31, 2013 and for the period ended September 30, 2013) are filed as part of this Form 17-Q as Exhibit A.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

The following Management Discussion and Analysis should be read in conjunction with the attached unaudited consolidated financial statements of AgriNurture, Inc. and Subsidiaries as of and for the nine months ended September 30, 2014.

Business Overview

AgriNurture, Inc. (the “Company” or ANI), formerly known as Mabuhay 2000 Enterprises, Inc., was founded in 1997 as an importer, trader and fabricator of post-harvest agricultural machineries. The Company eventually diversified into various agro-commercial businesses specifically focusing on the export trading of fresh Philippine carabao mangoes.

Currently, the Company conducts its business through operating divisions and wholly-owned or majority-owned subsidiaries that are organized into two (2) groups, namely: (i) Philippine Operations and (ii) Foreign Operations.

The Philippine Operations Group is organized into five business units: (1) Exports, (2) Local Distribution, (3) Banana Plantation/Farming, (4) Retail & Franchising and (5) Manufacturing & Processing. Meanwhile, Foreign Operations is principally fruits and vegetable trading in two countries: Hong Kong/China and Australia.

At present, ANI exports bananas, coco-water/juice, mangoes and pineapple to customers in Mainland China, Hong Kong, the Middle East, North America and to different European regions.

ANI Group’s revenues for the nine months ended September 30, 2014 and 2013 by each of the principal business segments is as follows:

	September 30, 2014	September 30, 2013
Philippine operations		
Export	418,313,190	302,863,153
Local Distribution	208,694,816	277,314,326
Banana Plantation/Farming	81,772,557	230,105,377
Retail	84,156,862	105,869,644
Others	83,985,734	67,764,476
Sub-total	876,923,158	983,916,976
Foreign operations		
Hongkong/China	1,405,467,945	1,547,785,713
Australia	509,698,131	235,852,452
Sub-total	1,915,166,076	1,783,638,165
TOTAL REVENUE (CONSO)	2,792,089,234	2,767,555,141

Results of Operations

Nine months ended September 30, 2014 versus September 30, 2013

Net Sales

ANI Group sustained a consolidated sale of goods and services at ₱2,792.09 million for the nine months ended September 30, 2014 compared with same period last year. For the first nine months of 2014, Philippine operations contributed 31.4% while sales from Foreign operations accounted for 68.6% of consolidated sales. Sale of goods and services by business segment follows:

- Export sales posted an increase of 38% year-on-year to ₱418.3 million for the first nine months of fiscal year 2014 from ₱270 million for the same period in 2013, primarily due to strong performance of banana exports driven by (i) increased and stable supply of bananas, courtesy of the Company's newly established banana plantation joint-venture, Tagum Resources Agri Industries, Inc. (TRAIN) and (ii) strong selling price in the international markets.
- Local distribution sales posted a decline of 25% to ₱208.7 million for the nine months ended September 30, 2014 from ₱277.3 million for the same period in 2013, mainly due to closure of certain outlets and rationalization of operations particularly the closure of wet market operations by early 2014.
- Farming revenues registered a decline of 64% to ₱81.8 million for the first nine months of 2014 from ₱230.1 million for same period of 2013, mainly due to the closure of rice farming operations by second quarter of 2014. Moving forward, activities for this segment will primarily come from the banana plantation conducted by TRAIN, representing its sales to third parties since TRAIN sales of bananas thru ANI are reported as part of export sales.
- Retail and franchising sales registered a decline by 20% to ₱84.2 million for the first nine months of 2014 from ₱105.87 million for same period in 2013, primarily due to rationalization of operations by closing certain outlets which incurred significant losses.
- Combined Foreign trading operations posted an increase of 7.3% to ₱1,915 million for the first nine months of 2014 from ₱1,784 million for same period last year, mainly due to 116% increase in sales of Australia operations, as the 2014 performance covers full nine months with the two subsidiaries while 2013 covers only one quarter with one subsidiary and one quarter with two subsidiaries. The Australia operations are conducted by two newly

acquired subsidiaries, namely BSK Pty. Ltd. (acquired in April 2013) and Michsul Pty. Ltd. (acquired in July 2013).

- Others, which consists of manufacturing/processing, vegetable processing and transport logistics, registered sales of ₱84 million for the first nine months of 2014 up by 24% from ₱68 million for the same period of 2013 due to improved operations.

Cost of Sales

Cost of sales consists of:

- Cost of purchasing fruits and vegetables and raw material from growers and other traders and suppliers;
- Personnel expenses, which include salary and wages, employee benefits and retirement costs for employees involved in the production process;
- Repairs/maintenance costs, relating to production equipment, vehicles, facilities and buildings;
- Fuel and oil costs relating to the production and distribution process;

For the nine months ended September 30, 2014, ANI Group's cost of sales and services amounted to ₱1,996.1 million down by 12% from ₱2,275.9 million for the same period in 2013, due to the lower amount of purchases and decline of harvested agricultural produce as the company discontinues rice farming.

Gross Profit

Consolidated gross profit grew by ₱304 million or 62% for the nine months ended September 30, 2014. The growth from ₱492 million to ₱796 million for same period last year was mainly contributed by banana exports and Foreign operations amounting to ₱107 million and ₱195 million, respectively, in line with the increase in sales as mentioned above and the improvement in their respective gross profit rate and offset by the decline in gross profit of local distribution and farming, in line with the decline in sales.

Consequently, gross profit ratio improved to 28.2% for the first nine months 2014 from 17.8% for the same period last year.

Operating Expenses

The Company's operating expenses consist of selling expenses and administrative expenses which include the following major items:

- Salaries, wages and other employee benefits
- Freight out and handling cost
- Contracted services mainly for sales operations
- Rental
- Depreciation and amortization

Consolidated operating expenses for the first nine months of 2014 amounted to ₱746.8 million up from ₱419.4 million for the same period last year, due mainly to the growth in the Foreign operations most particularly Australia as salaries, wages, and other employee benefits is significantly higher than in the Philippines.

Finance Costs

Finance Costs for the first nine months of 2013 and 2014 are ₱38.73 million and ₱57.46 million, respectively. The increase is mainly due to the additional debts particularly the addition of convertible bonds and increase in interest rates of certain loans.

Net Income

Net income for the first nine months of fiscal year 2014 amounted to ₱28.2 million of which negative ₱24.1 million is attributable to equity holders of the parent while ₱52.3 million is attributable to non-controlling interest.

Non-controlling interest represents primarily the share in the net income attributable to non-controlling interest of TRAIN, ANI's 51% owned subsidiary.

Financial Condition

September 30, 2014 versus December 31, 2013

Assets

ANI Group's consolidated total assets as of September 30, 2014 amounted to ₱5.4 billion an increase of 14% from ₱4.8 billion at December 31, 2013. The following explain the significant movements in the asset accounts:

- The Group's cash balance decreased by ₱303 million primarily due to the investment in banana plantation thru its joint venture subsidiary, Tagum Resources Industries, Inc. (TRAIN), which was used in connection with the lease of 2,943,254 sqm, including all improvements and biological assets.
- Receivables increased by 5%.
- Consolidated Advances to projects and related parties has a net increase of ₱305.7 million, equivalent to 31.5%. Movements in these accounts are due to projects and mergers and acquisitions pending full liquidation.
- Inventory balance increased from a year end 2013 balance of ₱121.1 million to ₱154.4 million, which is an expected trend due to the increase in trading volume for the group in 2014.
- Biological assets has an increase of 21% due to changes in fair value for the first semester of 2014.

Liabilities

Consolidated liabilities amounted to ₱2.87 billion as of September 30, 2014.

Total current liabilities amounted to ₱1.86 billion and ₱2 billion as of December 31, 2013 and September 30, 2014 respectively. The 7.5% increase is mainly due to increase in loans and borrowings.

Total non-current liabilities increased to ₱868 million mainly due to the addition of ₱295.4 million as of September 30, 2014 which is in relation to the joint venture agreement under TRAIN.

Equity

Consolidated stockholders' equity as of September 30, 2014 amount to ₱2.6 billion. The increase was due to the infusion of new capital amounting to ₱257 million.

Liquidity and Capital Resources

Net cash used by operating activities for the first 9 months of 2014 was ₱228 million.

Net cash used in investing activities is ₱584 million mainly in relation to the investment in the banana plantation joint venture through TRAIN.

Net cash flows from financing activities is ₱509 million, which is mainly from the liability arising from the joint venture.

Discussion and Analysis of Material Events and Uncertainties

The company has no knowledge and not aware of any material event/s and uncertainties known to the management that would address the past and would have an impact on the future operations of the following:

- a) Any known trends, demands, commitments, events or uncertainties that will have a material impact on our liquidity
- b) Any events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of obligation.
- c) All material off-balance sheet transactions, arrangements, obligations and other relationships of the company with unconsolidated entities or other persons created during the period.
- d) Any material commitments for capital expenditures, the general purpose of such commitments and the expected sources of funds for such expenditures.
- e) Any known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales/revenues/income from continuing operations.
- f) Any significant elements of income/loss did not arise from our continuing operation.
- g) Any seasonal aspects that had a material effect on financial condition or results of operation.

The Company's Key Performance Indicators

		September 30, 2014	December 31, 2013
Liquidity:			
Current ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	1.33	1.36
Solvency:			
Debt-to-equity ratio	$\frac{\text{Total Liabilities (Current+Non-current)}}{\text{Stockholder's Equity}}$	1.11	1.10
		September 30, 2014	September 30, 2013
Profitability:			
Return on average equity	$\frac{\text{Net Income}}{\text{Average Stockholder's Equity of the company}}$	0.01	0.02
Interest Coverage Ratio	$\frac{\text{Earnings before Interest and Taxes}}{\text{Interest Expense}}$	1.55	6.88
Operating efficiency:			
Revenue growth	$\left[\frac{\text{Current period Net Sales}}{\text{Prior period Net Sales}} \right] - 1$	0.009	-0.11
Operating Margin	$\frac{\text{Net Operating Income}}{\text{Net sales}}$	0.032	0.041

EXHIBIT A

AgriNurture, Inc. and Subsidiaries
Consolidated Financial Statements
September 30, 2014 and December 31, 2013
and for the Period Ended
September 30, 2014 and 2013

AGRINURTURE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
September 30, 2014 and December 31, 2013
(Philippine Peso)

	September 30, 2014 (Unaudited)	December 31, 2013 (Audited as Restated)
ASSETS		
Current Assets		
Cash (Note 4)	₱36,108,021	₱339,310,829
Trade and other receivables (Note 5)	748,347,948	715,241,065
Inventories (Note 6)	154,396,821	121,137,973
Biological assets (Note 7)	300,809,908	249,571,640
Advances to related parties	1,093,795,319	809,504,125
Advances to projects (Note 8)	181,858,951	160,479,951
Prepayments and other current assets (Note 9)	139,691,076	126,279,586
Total Current Assets	2,655,008,044	2,521,525,169
Noncurrent Assets		
Advances to projects (Note 8)	490,673,604	490,673,604
Property, plant and equipment (Note 10)	1,525,808,308	1,039,743,836
Intangibles (Note 11)	652,509,927	652,638,418
Deferred income tax assets	69,149,801	59,836,178
Other noncurrent assets	54,863,208	24,402,861
Total Noncurrent Assets	2,793,004,848	2,267,294,897
TOTAL ASSETS	₱5,448,012,892	₱4,788,820,066
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Note 12)	₱883,547,784	₱764,783,796
Loans and borrowings (Note 13)	1,044,950,392	1,040,583,983
Lease payable	69,228,679	50,026,752
Income tax payable	5,613,675	8,262,200
Total Current Liabilities	2,003,340,531	1,863,656,731
Noncurrent Liabilities		
Loans and borrowings - net of current portion (Note 13)	60,000,000	120,000,000
Convertible bonds (Note 13)	384,000,000	335,000,000
Lease payable - net of current portion	69,813,528	126,619,230
Pension liability (Note 20)	6,977,198	6,977,199
Deferred income tax liabilities	51,751,206	51,751,206
Other noncurrent liabilities	295,400,000	-
Total Noncurrent Liabilities	867,941,932	640,347,635
Total Liabilities	2,871,282,463	2,504,004,366
Equity Attributable to Equity Holders of the Parent		
Capital stock (Note 14)	621,683,570	535,693,037
Additional paid-in capital (Note 14)	2,330,723,527	2,158,742,461
Foreign currency translation reserve	(337,168)	(6,068,727)
Retained earnings/(Deficit)	(488,050,347)	(463,909,194)
	2,464,019,583	2,224,457,577
Non-controlling Interests	112,710,846	60,358,123
Total Equity	2,576,730,429	2,284,815,700
TOTAL LIABILITIES AND EQUITY	₱5,448,012,892	₱4,788,820,066

AGRINURTURE INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
For the nine months and for the quarters ended September 30, 2014 and 2013
(Philippine Peso)

	For the quarter ended September 30		For the nine months ended September 30	
	2014	2013	2014	2013
	(Unaudited)	Restated (Unaudited)	(Unaudited)	Restated (Unaudited)
Revenues (Note 15)	P871,460,760	P952,183,148	P2,825,688,290	P2,767,555,141
Cost of sales and services (Note 16)	(634,549,890)	(753,824,143)	(2,029,726,280)	(2,275,923,139)
GROSS PROFIT	236,910,869	198,359,005	795,962,010	491,632,002
Other operating income (Note 17)	21,448,076	7,541,790	39,773,060	41,855,755
General and administrative (Note 18)	(243,833,742)	(183,957,131)	(746,798,549)	(419,415,658)
OPERATING PROFIT	14,525,203	21,943,664	88,936,521	114,072,099
Finance income	15,267	785,885	169,227	840,208
Finance costs	(17,959,531)	(15,348,265)	(57,457,971)	(38,727,405)
INCOME BEFORE INCOME TAX	(3,419,061)	7,381,284	31,647,778	76,184,902
PROVISION FOR INCOME TAX (Note 21)	8,890,355	(11,345,294)	(3,436,207)	(16,577,540)
NET INCOME	5,471,294	(3,964,009)	28,211,571	59,607,361
Net income (loss) attributable to:				
Equity holders of the parent	(12,339,448)	(10,769,973)	(24,141,152)	16,494,055
Non-controlling interests	17,810,742	6,805,964	52,352,723	43,113,306
	5,471,294	(3,964,009)	28,211,571	59,607,361
Basic and diluted earnings (loss) per share	(0.020)	(0.017)	(0.039)	0.027
STATEMENT OF COMPREHENSIVE INCOME				
NET INCOME	5,471,294	(3,964,009)	28,211,571	59,607,361
OTHER COMPREHENSIVE INCOME (LOSS)				
Exchange differences on translation of foreign operations	(458,492)	-	5,731,559	-
TOTAL COMPREHENSIVE INCOME	5,012,802	(3,964,009)	33,943,130	59,607,361
Total comprehensive income (loss) attributable to:				
Equity holders of the parent	(12,797,940)	(10,769,973)	(18,409,593)	16,494,055
Non-controlling interests	17,810,742	6,805,964	52,352,723	43,113,306
	5,012,802	(3,964,009)	33,943,130	59,607,361

AGRINURTURE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the nine months ended September 30, 2014 and December 2013
(Philippine Peso)

	Share capital	Share premium	Translation reserve	Retained earnings Unappropriated	Total equity attributable to equity holders of the Parent	Non-controlling interest	Total
At January 1 , 2013	P535,693,037	P2,158,742,461	(P2,203,676)	(P517,152,787)	P2,175,079,035	P134,211,800	P2,309,290,835
Investment of Non Controlling Interest	-	-	-	(129,009,828)	(129,009,828)	2,759,097	(126,250,731)
Net Income for the period	-	-	-	16,494,055	P16,494,055	43,113,306	P59,607,361
At September 30 ,2013	535,693,037	2,158,742,461	(2,203,676)	(629,668,560)	2,062,563,262	180,084,203	2,242,647,465
Net Income (loss)	-	-	-	34,219,638	P34,219,638	P12,230,292	P46,449,930
Other Comprehensive income (loss)	-	-	(3,865,051)	7,744	(3,857,307)	(3,453,368)	(7,310,675)
Total Comprehensive income (loss)	-	-	(3,865,051)	34,227,382	30,362,331	8,776,924	39,139,255
Non-controlling interest arising on business combination	-	-	-	-	-	-	-
Increase (decrease) in share of subsidiary	-	-	-	131,531,983	P131,531,983	(128,503,004)	P3,028,979
At December 31 ,2013	535,693,037	2,158,742,461	(6,068,727)	(463,909,195)	2,224,457,576	60,358,123	2,284,815,699
At January 1 , 2014	535,693,037	2,158,742,461	(6,068,727)	(463,909,195)	2,224,457,576	60,358,123	2,284,815,699
Issuance of common shares	85,990,533	171,981,066	-	-	257,971,599.00	-	257,971,599.00
Foreign currency translation reserve	-	-	5,731,559	-	5,731,559	-	5,731,559
Net Income (loss) for the period	-	-	-	(24,141,152)	(24,141,152)	52,352,723	28,211,571
At September 30 ,2014	621,683,570	2,330,723,527	(337,168)	(488,050,347)	2,464,019,582	112,710,846	2,576,730,428

AGRINURTURE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the period ended September 30, 2014 and 2013
(Philippine Peso)

	September 30, 2014	September 30, 2013
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	31,647,778	76,184,902
Adjustments for:		
Depreciation and amortization	67,576,401	52,884,152
Pension	-	764,497
Interest income	(169,227)	(840,208)
Interest expense	57,457,971	38,727,405
Operating income before working capital changes	156,512,922	167,720,748
Decrease (increase) in:		
Trade and other receivables	(33,106,883)	126,025,769
Advances to related parties	(284,291,193)	(174,940,350)
Advances to projects	(21,379,000)	-
Inventories	(33,258,848)	(23,589,553)
Biological assets	(51,238,268)	-
Prepayments and other current assets	(13,411,490)	(21,501,292)
Increase (decrease) in:		
Trade and other payables	118,763,988	(66,468,135)
Advances from related parties	-	(615,052)
Other current liabilities	-	(133,627)
Net cash generated from operations	(161,408,773)	6,498,508
Interest received	169,227	840,208
Interest paid	(57,457,971)	(38,727,405)
Income taxes paid	(9,666,797)	(9,409,096)
Net cash flows used in operating activities	(228,364,313)	(40,797,785)
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions in Property, plant and equipment	(553,512,383)	(127,128,022)
Increase in other noncurrent assets	(30,460,347)	(44,335,980)
Net cash flows used in investing activities	(583,972,729)	(171,464,002)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of capital stock	257,971,599	-
Proceeds and payments on loans and borrowings - net	(55,633,591)	157,054,385
Issuance of convertible bonds	49,000,000	-
Payment of lease payable	(37,603,774)	-
Other noncurrent liabilities	295,400,000	-
Net cash flows from financing activities	509,134,234	157,054,385
NET DECREASE IN CASH	(303,202,809)	(55,207,402)
CASH AT BEGINNING OF YEAR	339,310,829	218,038,556
CASH AT END OF PERIOD (Note 4)	36,108,020	162,831,154

AGRINURTURE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

AgriNurture, Inc. (the Company, Parent Company) was registered with the Philippine Securities and Exchange Commission (SEC) on February 4, 1997 to engage in the manufacturing, producing, growing, buying, selling, distributing, marketing at wholesale only insofar as may be permitted by law, all kinds of goods, commodities, wares and merchandise of every kind and description and to enter into all kinds of contracts for the export, import, purchase, acquisition, sale at wholesale only and other disposition for its own account as principal or in representative capacity as manufacturer's representative, up consignment of all kinds of goods, wares, merchandise or products, whether natural or artificial.

On March 30, 2009, the SEC approved the change in the Parent Company's primary purpose to engage in corporate farming, in all its branches for the planting, growing, cultivating and producing of crops, plants and fruit bearing trees, of all kinds and in connection to engage in agri-tourism and other pleasurable pursuits for the enjoyments and appreciation of mother nature and ecology and to engage in the establishment, operation and maintenance of equipment, structures and facilities for the preservation, conservation and storage of foods, grains and supplies, like cold storage and refrigeration plants.

On April 15, 2009, the Company was listed on the Philippine Stock Exchange (PSE) with an initial listing by way of introduction of 178,536,602 common shares, with a par value of P 1.00 per share in the Second Board of the PSE.

The Parent Company's registered principal office address is No. 54 National Road, Dampol II-A, Pulilan, Bulacan. The Parent Company's business address is 11th Floor, Salcedo Tower, 169 H.V. dela Costa Street, Salcedo Village, Makati City.

The consolidated financial statements as at and for the period ended September 30, 2014 were authorized for issuance by the Parent Company's BOD on November 13, 2014.

2. Basis of Preparation and Consolidation, Statement of Compliance and Summary of Significant Accounting Policies

Basis of Preparation

The consolidated financial statements have been prepared on a historical cost basis, except for biological assets that have been measured at fair value less estimated point of sale costs and trademark measured at fair value. The consolidated financial statements and these notes are presented in Philippine Peso, the Parent Company's functional and presentation currency. All amounts are rounded to the nearest peso, unless otherwise indicated.

Statement of Compliance

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

Basis of Consolidation

The consolidated financial statements include the Parent Company and the following subsidiaries (collectively referred to as the Group):

	Country of Incorporation	Nature of Business	Effective Ownership	
			2014	2013
Best Choice Harvest Agricultural Corp. (BCHAC)	Philippines	Farm management	100%	100%
First Class Agriculture Corporation (FCAC)	Philippines	Trading (Agricultural goods)	100%	100%
M2000 IMEX Company, Inc. (IMEX)	Philippines	Manufacturing and export	100%	100%
Hansung Agro Products Corporation (HAPC)	Philippines	Processing (Agricultural goods)	100%	100%
*Fresh and Green Harvest Agricultural Company, Inc. (FG)	Philippines	Trading (Agricultural goods)	100%	100%
*Lucky Fruit & Vegetable Products, Inc. (LFVPI)	Philippines	Trading (Agricultural goods)	100%	100%
*Goods and Nutrition for All, Inc. (GANA)	Philippines	Retail and wholesale	100%	100%
Fruitilicious Company, Inc. (FI)	Philippines	Manufacturing/processing/trading frozen agricultural products	90%	90%
*Tagum Resources Agri Industries, Inc.	Philippines	Farming (Agricultural produce)	51%	51%
Xiamen Waitaixing Trading Corp. (XWT)	China	Trading (Agricultural goods)	51%	51%
*Sunshine Supplies International Co., Ltd. (SSIC)	Hong Kong	Trading (Agricultural goods)	51%	51%
Qualis Logistics and Transport Services, Inc. (QLTS)	Philippines	Logistics	51%	51%
Farmville Farming Co., Inc. (FFCI)	Philippines	Trading (Agricultural goods)	51%	51%
*Ocean Biochemistry Technology Research, Inc. (OBT)	Philippines	Farm management	51%	51%
*Fresh and Green Palawan Agriventures, Inc. (FGP)	Philippines	Farm management	51%	51%
The Big Chill (TBC)	Philippines	Food and beverage retailing and franchising	80%	80%
Heppy Corporation (HC)	Philippines	Food and beverage retailing and franchising	80%	80%
Agrinurture HK Holdings Ltd. (Cayman Islands) (ANI HK)	Hong Kong	Holding Company	100%	100%
*Agrinurture Int'l Ltd. (ANI IL)	Hong Kong	Trading and retail	100%	100%
*Freshness First Pty. Ltd. (FFPL)	Australia	Processing and trading	100%	100%
*BSK Pty. Ltd. (BSK)	Australia	Wholesale	100%	100%
*Michsul Pty. Ltd. (MPL)	Australia	Wholesale	100%	100%
*Joyful Fairy (Fruits) Limited (JF BVI)	British Virgin Islands	Trading (Agricultural goods)	51%	51%
*Joyful Fairy HK (JF HK)	Hong Kong	Trading (Agricultural goods)	51%	51%
*Direct and indirect ownership				

Subsidiaries

Subsidiaries are entities over which the Parent Company has control.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Parent Company obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company, using uniform accounting policies for like transactions and other events in similar circumstances.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full.

Non-controlling Interest

Non-controlling interest represents interest in a subsidiary that is not owned, directly or indirectly, by the Parent Company. Profit or loss and each component of other comprehensive income are attributed to the equity holders of the Parent Company and to the non-controlling interest. Total comprehensive income is attributed to the equity holders of the Parent Company and to the non-controlling interests even if this results in the non-controlling interest having a deficit balance.

Non-controlling interest represents the portion of profit or loss and the net assets not held by the Group. Transactions with non-controlling interest are accounted for using the entity concept method, whereby the difference between the consideration and the book value of the share of the net assets acquired is recognized as an equity transaction.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. If the Group loses control over a 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; and
- Reclassifies the parent company's share of components previously recognized in other comprehensive income to profit or loss.

Basis of Consolidation Prior to January 1, 2010

The above mentioned requirements were applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Non-controlling interests represented the portion of profit or loss and net assets in the subsidiaries not held by the Group and are presented separately in the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of financial position separately from the parent's equity.
- Acquisition of non-controlling interest is accounted for using the entity concept method, whereby the difference between the consideration and the book value of the share of the net assets acquired is recognized as an equity transaction.
- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these.
- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following amended PFRS and PAS which were adopted as at January 1, 2013.

The Group applied, for the first time, certain standards and amendments that require restatement of previous financial statements. These include PAS 19, *Employee Benefits* (Revised 2011), PFRS 13, *Fair Value Measurement* and amendments to PAS 1, *Presentation of Financial Statements*. In addition, the application of PFRS 12, *Disclosure of Interests in Other Entities*, resulted in additional disclosures in the consolidated financial statements.

Several other amendments apply for the first time in 2013. However, they do not impact the annual consolidated financial statements of the Group.

The nature and the impact of each new standard and amendment are described below:

- PFRS 7, *Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* (Amendments)

These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format, unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

- a) The gross amounts of those recognized financial assets and recognized financial liabilities;
- b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
- c) The net amounts presented in the statement of financial position;
- d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
 - i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
 - ii. Amounts related to financial collateral (including cash collateral); and
- e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

The amendments affect disclosures only and have no impact on the Group's financial position or performance.

- PFRS 10, *Consolidated Financial Statements*

The Group adopted PFRS 10 in the current year. PFRS 10 replaced the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addressed the accounting for consolidated financial statements. It also included the issues raised in SIC 12, *Consolidation - Special Purpose Entities*. PFRS 10 established a single control model that applied to all entities including special purpose entities. The changes introduced by PFRS 10 require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. The Group has assessed that the application of PFRS 10 has no material impact on the Group's financial position or performance.

- PFRS 11, *Joint Arrangements*

PFRS 11 replaced PAS 31, *Interests in Joint Ventures*, and SIC 13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. PFRS 11 removed the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method. The Group has assessed that the application of PFRS 11 has no impact on the Group's financial position or performance.

- PFRS 12, *Disclosure of Interests in Other Entities*

PFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in PFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries (for example, where a subsidiary is controlled with less than a majority of voting rights). While the Group has subsidiaries with material noncontrolling interests, there are nonconsolidated structured entities. PFRS 12 disclosures are provided in Note 2.

- PFRS 13, *Fair Value Measurement*

PFRS 13 establishes a single source of guidance under PFRSs for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS. PFRS 13 defines fair value as an exit price. PFRS 13 also requires additional disclosures.

As a result of the guidance in PFRS 13, the Group re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. The Group has assessed that the application of PFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures, where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

- PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income or OCI*(Amendments)

The amendments to PAS 1 introduced a grouping of items presented in other comprehensive income. Items that will be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. The amendments affect presentation only and have no impact on the Group's financial position or performance.

- PAS 19, *Employee Benefits* (Revised)

On 1 January 2013, the Group adopted the Revised IAS 19 Employee Benefits. For defined benefit plans, the Revised IAS 19 requires all actuarial gains and losses to be recognized in other comprehensive income and unvested past service costs previously recognized over the average vesting period to be recognized immediately in profit or loss when incurred. Prior to adoption of the Revised IAS 19, the Group recognized actuarial gains and losses as income or expense when the net cumulative unrecognized gains and losses for each individual plan at the end of the previous period exceeded 10% of the higher of the defined benefit obligation and the fair value of the plan assets and recognized unvested past service costs as an expense on a straight-line basis over the average vesting period until the benefits become vested. Upon adoption of the revised IAS 19, the Group changed its accounting policy to recognize all actuarial gains and losses in other comprehensive income and all past service costs in profit or loss in the period they occur.

The Revised IAS 19 replaced the interest cost and expected return on plan assets with the concept of net interest on defined benefit liability or asset which is calculated by multiplying the net balance sheet defined benefit liability or asset by the discount rate used to measure the employee benefit obligation, each as at the beginning of the annual period.

The Revised IAS 19 also amended the definition of short-term employee benefits and requires employee benefits to be classified as short-term based on expected timing of settlement rather than the employee's entitlement to the benefits. In addition, the Revised IAS 19 modifies the timing of recognition for termination benefits. The modification requires the termination benefits to be recognized at the earlier of when the offer cannot be withdrawn or when the related restructuring costs are recognized.

Changes to definition of short-term employee benefits and timing of recognition for termination benefits do not have any impact to the Group's financial position and financial performance.

The changes in accounting policies have been applied retrospectively. The effects of adoption on the financial statements are as follows:

As at December 31, 2013			
	Old PAS 19	Increase (decrease)	Revised PAS 19R
Statements of financial position:			
Retirement liability	8,620,051	1,642,852	6,977,199
Deferred income tax asset	59,143,806	692,372	59,836,178
Retained earnings	1,836,021	-2,327,480	4,163,501
Remeasurement gain on retirement benefits liability (net of deferred income tax asset)	-	-7,744	-7,744

Change of presentation

Upon adoption of the Revised IAS 19, the presentation of the income statement was updated to reflect these changes. Net interest is now shown under the finance income/expense line item (previously under personnel expenses under general and administrative expenses). This presentation better reflects the nature of net interest since it corresponds to the compounding effect of the long-term net defined benefit liability (net defined benefit asset). In the past, the expected return on plan assets reflected the individual performance of the plan assets, which were regarded as part of the operating activities.

- PAS 27, *Separate Financial Statements* (as revised in 2011)

As a consequence of the issuance of the new PFRS 10, *Consolidated Financial Statements*, and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in the separate financial statements. The adoption of the amended PAS 27 did not have a significant impact on the separate financial statements of the entities in the Group.

- PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011)

As a consequence of the issuance of the new PFRS 11, *Joint Arrangements*, and PFRS 12, *Disclosure of Interests in Other Entities*, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendments affect disclosures only and have no material impact on the Group's financial position or performance.

Annual Improvements to PFRSs (2009-2011 cycle)

The annual improvements to PFRSs (2009-2011 cycle) contain non-urgent but necessary amendments to PFRSs. The Group adopted these amendments for the current year.

- *PFRS 1, First-time Adoption of PFRS - Borrowing Costs*

The amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, *Borrowing Costs*. The amendment does not apply to the Group as it is not a first-time adopter of PFRS.

- *PAS 1, Presentation of Financial Statements - Clarification of the Requirements for Comparative Information*

These amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. As a result, the Group has not included complete comparative information in respect of the opening consolidated statement of financial position as at January 1, 2012. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

- *PAS 16, Property, Plant and Equipment - Classification of Servicing Equipment*

The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The amendment has no significant impact on the Group's financial position or performance.

- *PAS 32, Financial Instruments: Presentation - Tax Effect of Distribution to Holders of Equity Instruments*

The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*. The amendment does not have any significant impact on the Group's financial position or performance.

- *PAS 34, Interim Financial Reporting - Interim Financial Reporting and Segment Information for Total Assets and Liabilities*

The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment affects disclosures only and has no impact on the Group's financial position or performance.

New Accounting Standards, Interpretations and Amendments Effective Subsequent to December 31, 2013

The Group will adopt the following standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended standards and interpretations to have a significant impact on its consolidated financial statements.

Effective in 2014:

- PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets* (Amendments)

These amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after January 1, 2014 with earlier application permitted, provided PFRS 13 is also applied. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

- Investment Entities (Amendments to PFRS 10, PFRS 12 and PAS 27)

These amendments are effective for annual periods beginning on or after January 1, 2014. They provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Group since none of the entities in the Group would qualify to be an investment entity under PFRS 10.

- Philippine Interpretation IFRIC 21, *Levies* (IFRIC 21)

IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The Group does not expect that IFRIC 21 will have material financial impact in future financial statements.

- PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting* (Amendments)

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after January 1, 2014. Adoption of the interpretation when it becomes effective will not have any impact on the financial statements of the Group.

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (Amendments)

The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments affect presentation only and have no impact on the Group's financial position or performance. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

Effective in 2015:

- PFRS 9, *Financial Instruments*

PFRS 9, as issued, reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through OCI or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities. PFRS 9 is effective for annual periods beginning on or after January 1, 2015.

To be Determined:

Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*. This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11 or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

The revised, amended and additional disclosure or accounting changes provided by the standards and interpretations will be included in the consolidated financial statements in the year of adoption, if applicable.

Summary of Significant Accounting Policies

Foreign Currency Translation

The consolidated financial statements are presented in Philippine Peso (₱), which is the Parent Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

The functional and presentation currency of the entities in the Group (except for XWT, SSIC, ANI HK, ANI IL, JF HK, FFPL, ANI ESL and JF BVI) is also the Philippine peso.

Transactions in foreign currencies are initially recorded by entities under the Group at the respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at functional currency closing rate of exchange at the end of reporting period. All differences arising on settlement or translation of monetary items are recognized in the consolidated statement of income except for foreign exchange differences that qualify as capitalizable borrowing cost for qualifying assets. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transaction. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Presentation of Financial Statements

The Company has elected to present separately the items of recognized income and expense and other comprehensive income in consolidated statement of income and consolidated statement comprehensive income, respectively.

Cash

Cash includes cash on hand and in banks, which earns interest at their respective bank deposit rates.

Financial Instruments

Date of recognition

The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument.

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

Initial Recognition and Measurement of Financial Instruments

The Group determines the classification of financial instruments at initial recognition and, where allowed and appropriate, re-evaluates this designation at every end of the reporting period.

All financial instruments are recognized initially at fair value. Directly attributable transaction costs are included in the initial measurement of all financial instruments, except for financial instruments measured at FVPL.

Financial Assets

Financial assets within the scope of PAS 39 are classified in the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments, AFS financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market.

The Group's financial assets are in the nature of loans and receivables. The Group has no financial assets classified as AFS, FVPL and HTM investments as at September 30, 2014 and December 31, 2013.

Financial Liabilities

Also under PAS 39, financial liabilities are classified into financial liabilities at FVPL, loans and borrowings or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

Financial instruments are classified as liabilities 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, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity net of any related income tax.

The Group's financial liabilities are in the nature of loans and borrowings. The Group has no financial liabilities classified as at FVPL as at September 30, 2014 and December 31, 2013.

Subsequent Measurement

The subsequent measurement of financial instruments depends on their classification as follows:

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate short-term resale and are not classified or designated as AFS financial assets or financial assets at FVPL. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method (EIR), less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The amortization is included under "Finance costs" in the consolidated statement of income. The losses arising from impairment are recognized in the consolidated statement of income as "Finance costs".

Loans and receivables are included in current assets if maturity is within twelve (12) months from the end of reporting period. Otherwise, these are classified as noncurrent assets.

As at September 30, 2014 and December 31, 2013, the Group's loans and receivables include cash, trade and other receivables, note receivable and advances to related parties in the consolidated statement of financial position.

Loans and Borrowings

Financial liabilities are classified in this category if these are not held for trading or not designated as at FVPL upon inception of the liability. These include liabilities arising from operations or borrowings. Loans and borrowings are classified as current liabilities if maturity is within twelve (12) months from financial reporting period. Otherwise, these are classified as noncurrent liabilities.

Loans and borrowings are initially recognized at fair value of the consideration received, less directly attributable transaction costs. After initial recognition, such loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in the consolidated statements of income when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any issue cost, and any discount or premium on settlement. The EIR amortization is included under "Finance costs" in the consolidated statement of income.

This accounting policy applies primarily to the Group's trade and other payables, loans and borrowings and advances from related parties that meet the above definition (other than liabilities that are covered by other accounting standards, such as income tax payable and pension)(see Notes 12 and 13).

Offsetting of Financial Instruments

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and the Group intends to either settle on a net basis, or to realize the asset and the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented at gross amounts in the consolidated statement of financial position.

Impairment of Financial Assets

The Group assesses at each financial reporting period whether there is any 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, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after 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 where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and Receivables

For financial assets carried at amortized cost, the Group first assesses individually 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 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 assets' original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

Interest income continues to be recognized based on the original EIR of the asset. The interest income is recorded as part of "Finance income" in the consolidated statements of income. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized 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 decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of

income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Derecognition of Financial Instruments

Financial Assets

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

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

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

Financial Liabilities

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts of a financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statement of income.

Business Combinations and Goodwill starting January 1, 2010

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 acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree’s identifiable net assets. Acquisition costs incurred are expensed.

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 acquisition date fair value of the acquirer’s previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through the consolidated statement of income. Any contingent consideration

to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with PAS 39 either in consolidated statement of income or as change to other income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in the consolidated statement of income.

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 (CGU) 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 forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

Business Combination Prior to January 1, 2010

In comparison to the above mentioned requirements, the following differences applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets. Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognized goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognized if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration affected goodwill.

Business Combination Accounted for Using the Pooling of Interest Method

Business combinations involving entities or entities under common control with no consideration transferred are accounted for using the pooling of interest method which is scoped out of PFRS 3, *Business Combination*. The pooling of interests method generally involve the following:

- The assets and liabilities of the combining entities are reflected at their carrying amounts. No adjustments are made to reflect fair values, or recognize any new assets or liabilities, that would otherwise be done under the purchase method. The only adjustments that are made are to harmonize accounting policies;
- No new goodwill is recognized as a result of the combination; the only goodwill that is recognized is any existing goodwill relating to either of the combining entities. Any difference between the consideration paid/transferred and the equity acquired is reflected within equity;

- The consolidated statements of income reflects the results of the combining entities for the full year, irrespective of when the combination took place; and
- Comparatives are presented as if the entities had always been combined.

Inventories

Inventories, excluding the long-term stock pile inventory, are valued at the lower of cost or net realizable value (NRV). NRV of finished goods inventories is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale. For materials and supplies, cost is composed of purchase price, transport, handling and other costs directly attributable to its acquisition. NRV of materials and supplies is the current replacement cost.

Biological Assets

The Group measures its biological assets at cost on initial recognition and at the end of each reporting period, at fair value less estimated point-of-sale costs. Gains or losses arising from changes in fair value less estimated point-of-sale costs of a biological asset are included in the Group's consolidated statements of income for the period in which they arise.

Property, Plant and Equipment

Except for land, property, plant and equipment are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment loss. Such cost includes the cost of replacing part of such property, plant and equipment when that cost is incurred if the recognition criteria are met. Land is stated at cost less any impairment in value.

Subsequent expenditures relating to an item of property, plant and equipment such as additions, major improvements and renewals are added to the carrying amount of the asset only when it is probable that future economic benefits associated with the item, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. Expenditures for repairs and maintenance are charged to operating expenses in the Group's consolidated financial statements of income (loss) during the period in which these are incurred.

Depreciation is computed on the straight-line basis over the following estimated useful lives of the assets:

<u>Category</u>	<u>Number of Years</u>
Building	15
Store and warehouse equipment	3 - 5
Delivery and transportation equipment	3 - 12
Machinery and equipment	3 - 12
Office furniture and fixtures	3 - 12
Other equipment	3 - 12
Leasehold improvement	5

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

Construction in progress represents leasehold improvements under construction and is stated at cost. This includes cost of construction, renovation, and other direct costs. Borrowing costs that are directly attributable to the construction of property, plant and equipment are capitalized during the construction period. Construction in-progress is not depreciated until the relevant asset is completed and ready for intended use.

An amount is written-down to its recoverable amount if the carrying amount is greater than its estimated recoverable amount.

The useful lives, residual value and depreciation method are reviewed periodically to ensure that these are consistent with the expected pattern of economic benefits from items of property, plant and equipment. An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits that are expected to arise from its continued use.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation is charged to consolidated statements of income (loss).

Borrowing Cost

Borrowing costs are generally expensed as incurred. Interest on borrowed funds used to finance the construction of the asset to the extent incurred during the period of construction is capitalized as part of the cost of the asset. The capitalization of the borrowing cost as part of the cost of the asset: (a) commences when the expenditures and borrowing costs are being incurred during the construction and related activities necessary to prepare the asset for its intended use are in progress; and (b) ceases when substantially all the activities necessary to prepare the asset for its intended use are complete.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred. The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of profit or loss as the expense category that is consistent with the function of the intangible assets. Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of profit or loss when the asset is derecognized.

Impairment of Nonfinancial Assets

Property, Plant and Equipment and Other Current and Noncurrent Assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any such indication exists and where the carrying amount of an asset exceeds its recoverable amount, the asset or CGU is written down to its recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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. In determining fair value less costs

to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators. Impairment losses are recognized in the consolidated statement of income.

Recovery of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. The recovery is recorded in profit or loss. However, the increased carrying amount of an asset due to a recovery of an impairment loss is recognized to the extent it does not exceed the carrying amount that would have been determined (net of depletion, depreciation and amortization) had no impairment loss been recognized for that asset in prior years.

Determination of Fair Values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

- Level 1 - Quoted prices in active markets for identical asset or liability
- Level 2 - Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)
- Level 3 - Those with inputs for asset or liability that are not based on observable market data (unobservable inputs)

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

External valuers are involved for valuation of significant assets, such as trademark. Involvement of external valuers is decided upon annually by the management after discussion with and approval by the Company's audit committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Valuers are normally rotated every three years. Management, after discussions with the Group's external valuers, decide on which valuation techniques and inputs to use for each case.

At each reporting date, management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The valuation committee, in conjunction with the Group's external valuers, also compares each the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

On an interim basis, management and the Group's external valuers present the valuation results to the audit committee and the Group's independent auditors. This includes a discussion of the major assumptions used in the valuations.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Provisions

General

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the consolidated statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, 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 a borrowing cost.

Other Comprehensive Income

Other comprehensive income comprises items of income and expense (including items previously presented under the consolidated statements of changes in equity) that are not recognized in the consolidated statement of income for the year in accordance with PFRS.

Capital Stock

Common shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from proceeds. The excess of proceeds from issuance of shares over the par value of shares are credited to additional paid-in capital.

Where the Parent Company or any of its subsidiaries purchases the Parent Company's shares (treasury shares), the consideration paid including any directly attributable incremental costs is deducted from equity attributable to the Parent Company's equity until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects is included in equity attributable to the Parent Company's stockholders.

Dividend distribution to the Parent Company's stockholders is recognized as a liability in the consolidated financial statements in the period in which the dividends are approved or declared by the Parent Company's BOD.

Retained Earnings

Retained earnings represent the cumulative balance of periodic net income or loss, dividend contributions, prior period adjustments, effect of changes in accounting policy and other capital adjustments.

Sale of goods

Revenue from the sale of goods in the course of ordinary course of activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue from sale of goods is recognized when all 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 the 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.

Rendering of Services

Revenue from services is recognized in the period in which they are rendered, provided the amount of revenue can be measured reliably and it is probable that the Group will receive consideration.

Interest

Revenue is recognized as interest accrues (using the EIR method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

Dividend

Dividend income is recognized when the Group's right to receive payment is established.

Rental

Rental is recognized based on a straight-line basis over the term of the lease agreement.

Cost and Expenses Recognition

Cost and expenses are decreases in economic benefits during the financial reporting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants. Cost and expense, interest expense and other finance costs are recognized in the consolidated statement of income in the period these are incurred.

Leases

Determination of 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 and requires an assessment of whether the fulfillment of the arrangement is

dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A reassessment is made after inception of the lease only if one of the following applies:

- (a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
- (b) a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
- (c) there is a change in the determination of whether fulfillment is dependent on a specified asset; or
- (d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

Group as a Lessee

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are amortized as an expense in consolidated statement of income on a straight-line basis over the lease term.

Group as a Lessor

Leases where the Group retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income.

Pension Benefits

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Basic/Diluted Earnings Per Share

Basic Earnings Per Share (EPS)

Basic EPS amounts are calculated by dividing the net income attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding, after giving retroactive effect for any stock dividends, stock splits or reverse stock splits during the year.

Diluted EPS

Diluted EPS amounts are calculated by dividing the net income attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding, adjusted for any stock dividends declared during the year plus weighted average number of ordinary shares that would be issued on the conversion of all the dilutive ordinary shares into ordinary shares, excluding treasury shares.

Income Taxes

Current Income Tax

Current income tax assets and liabilities for the current and 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 the amount are those that are enacted or substantively enacted at the end of the reporting period.

Current income tax relating to items recognized directly in the consolidated statement of changes in equity is recognized in equity and not in the consolidated statement of income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred Income Tax

Deferred income tax is provided using the liability method on temporary differences at the end of reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

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

Deferred income tax assets are recognized for all deductible temporary differences, carry forward benefits of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward benefits of unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in foreign subsidiaries and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each end of the reporting period 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 income 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 income tax asset to be recovered.

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

Deferred income tax liabilities are not provided on non-taxable temporary differences associated with investments in domestic subsidiaries, associates and interest in joint ventures. With respect to investments in other subsidiaries, associates and interests in joint ventures, deferred income tax liabilities are recognized except when the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax relating to items recognized outside consolidated statement of income is recognized outside consolidated statement of income. Deferred income tax items are recognized in correlation to the underlying transaction either in other income or directly in equity.

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

Business Segments

For management purposes, the Group is organized into operating segments according to the nature of the sales and the services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

Contingencies

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

Events after the Reporting Period

Post year-end events that provide additional information about the Group's position at the end of reporting period (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.

3. Significant Accounting Judgments, Estimates and Assumptions

The consolidated financial statements prepared in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and related notes. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the consolidated financial statements as they become reasonably determinable.

Judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcome can differ from these estimates.

Judgments

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

Determining Functional Currency

Based on the economic substance of the underlying circumstances relevant to the Parent Company, the functional currency of the Parent Company has been determined to be the Philippine peso. Each subsidiary in the Group also determines its own functional currency. The functional currency of the subsidiaries in the Group is also the Philippine peso. The functional currency is the currency of the primary economic environment in which the Parent Company and its subsidiaries operates. It is the currency that mainly influences the costs and expenses, in which funds from financing activities are generated, and in which receipts from operating activities are generally retained

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 definitions of a financial asset, a financial liability or an

equity instrument, rather than its legal form, governs its classification in the statement of financial position.

Determining Operating Lease Commitments- Group as a Lessee

The Group has entered into equipment leases. The Group has determined that it does not retain all the significant risks and rewards of ownership of these equipment which are leased on operating leases.

Determining Operating Lease Commitments - Group as a Lessor

The Group has entered into commercial property leases on its investment properties portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Estimates and Assumptions

The key estimates and assumptions concerning the future and other key sources of estimation uncertainty as at the end of the reporting period, that have the most significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year are as follows:

Estimating Allowance for Impairment Losses on Trade and Other Receivables

The Group evaluates specific accounts where the Group has information that certain customers are unable to meet their financial obligations. The Group assesses individually the receivables based on factors that affect its collectability. Factors such as the Group's length of relationship with the customers and the customer's current credit status are considered to ascertain the amount of allowances that will be recorded in the receivables account. These allowances are re-evaluated and adjusted as additional information is received.

In addition to specific allowance against individually significant loans and receivables, the Group also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on any deterioration in the Group's assessment of the accounts since their inception. The Group's assessments take into consideration factors such as any deterioration in country risk and industry, as well as identified structural weaknesses or deterioration in cash flows.

The carrying value of trade and other receivables amounted to P748,347,948 as at September 30, 2014 (December 31, 2013: P715,241,065). Allowance for impairment losses on trade and other receivables amounted to P14,856,558 as at September 30, 2014 (December 31, 2013: P14,856,558), respectively (see Note 5).

Estimating Allowance for Impairment Losses on Inventory

The Group maintains allowance for inventory losses at a level considered adequate to reflect the excess of cost of inventories over their NRV. NRV tests are performed at least annually and represent the estimated future sales price of the product based on prevailing prices at the reporting period, less estimated costs to complete production and bring the product to sale.

As at September 30, 2014, inventories carried at lower of cost or NRV amounted to P154,396,821 (December 2013: P121,137,973). There are no provision for impairment losses recognized in 2014 and 2013 (see Note 6).

Estimating Useful Lives of Property, Plant and Equipment

The Group estimates the useful lives of property, plant and equipment and investment property based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment and investment property are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of the useful lives of property, plant and equipment and investment property is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. There is no change in the estimated useful lives of the property, plant and equipment and investment properties as at September 30, 2014 and December 31, 2013.

The net book values of property, plant and equipment as at September 30, 2014 amounted to ₱1,525,808,308 (December 31, 2013: ₱1,039,985,043) (see Note 10).

Estimating Impairment Losses on Property, Plant and Equipment

The Group assesses impairment on property, plant and equipment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

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

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

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that can materially affect the consolidated financial statements.

These assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss would be recognized whenever evidence exists that the carrying value is not recoverable. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

An impairment loss is recognized and charged to earnings if the discounted expected future cash flows are less than the carrying amount. Fair value is estimated by discounting the expected future cash flows using a discount factor that reflects the market rate for a term consistent with the period of expected cash flows. No impairment loss was recognized in 2014 and 2013.

Determining Pension Benefits

The determination of the Group's obligation and cost for pension benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions, as described in Note 32, include among others, discount rates, expected rates of return and future salary increase rates. In accordance with PAS 19, 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 obligations in such future periods. While management believes that its assumptions are reasonable and appropriate,

significant differences in actual experience or significant changes in the assumptions may materially affect the Group's pension and other retirement obligations.

Pension liability amounted to ₱6,977,199 as at September 30, 2014 (December 31, 2013: 6,977,199).

Assessing Recoverability of Deferred Income Tax Assets

The Group reviews the carrying amounts of deferred income tax assets at each end of the reporting period and reduces the amounts to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized.

The Group has net deferred income tax assets amounting to ₱69,149,801 as at September 30, 2014 (December 31, 2013: ₱59,836,178).

Determining Fair Values of Financial Instruments

Where the fair values of financial assets and liabilities recorded in the consolidated statements of financial position cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. These estimates may include considerations of liquidity, volatility and correlation.

4. Cash

	<u>September 30, 2014</u>	<u>December 31, 2013</u>
Cash on hand	₱2,059,872	₱5,084,379
Cash in banks	34,048,149	334,226,450
	<u>₱36,108,021</u>	<u>₱339,310,829</u>

Cash with banks earn interest at the respective bank deposit rates. Interest income earned from cash with banks amounted to ₱169,227 for the period ended September 30, 2014 and ₱840,208 as at December 31, 2013.

5. Trade and Other Receivables

	<u>September 30, 2014</u>	<u>December 31, 2013</u>
Trade	₱636,443,887	₱646,006,784
Deposit to suppliers	35,960,782	69,792,136
Others	90,799,837	14,298,703
	<u>763,204,506</u>	<u>730,097,623</u>
Allowance for impairment losses	(14,856,558)	(14,856,558)
	<u>₱748,347,948</u>	<u>₱715,241,065</u>

Trade receivables are noninterest-bearing and are generally on thirty (30)-day terms.

Deposit to suppliers represents advance payments that will be settled by delivery of inventories to the Group.

The Group's allowance for impairment losses pertains to trade receivables and is based on specific impairment assessments performed by the Group.

Movements in allowance for impairment losses follow:

	September 30, 2014	December 31, 2013
Beginning balance	P14,856,558	P14,775,382
Impairment loss for the year	-	81,176
Ending balance	P14,856,558	P14,856,558

6. Inventories

	September 30, 2014	December 31, 2013
Vegetables and fruits	P149,147,456	P95,222,822
Packaging materials and other supplies	3,123,611	19,035,548
Finished goods	2,125,754	6,879,603
	P154,396,821	P121,137,973

Management believes that the Group's inventories are not impaired as at September 30, 2014 and 2013. Accordingly, there were no provisions for impairment losses that were recognized in 2014 and 2013.

There were no unusual purchase commitments and accrued net losses on such commitments.

7. Biological Assets

	September 30, 2014		
	Consumable	Bearer	Total
Beginning balance	P246,691,648	P2,879,992	P249,571,640
Additions	43,021,750	-	43,021,750
Harvested and transferred to inventory	(95,838,427)	-	(95,838,427)
Gain on changes in fair value of biological assets	104,054,946	-	104,054,946
	P297,929,917	P2,879,992	P300,809,908
	December 31, 2013		
	Consumable	Bearer	Total
Beginning balance	P98,775,350	P87,298,936	P186,074,287
Additions	11,500,000	5,000,000	16,500,000
Contribution from Joint venture	86,802,875	-	86,802,875
Harvested and transferred to inventory	(98,775,350)	(87,298,936)	(186,074,286)
Gain on changes in fair value of biological assets	148,388,773	(2,120,008)	146,268,765
	P246,691,648	P2,879,992	P249,571,640

An analysis of the gain (loss) from changes in fair value of biological assets is as follows:

	September 30, 2014		
	Consumable	Bearer	Total
Fair value of biological assets	₱372,412,395	₱3,599,990	₱376,012,385
Estimated point-of-sale costs	(74,482,479)	(719,998)	(75,202,477)
Fair value less estimated point-of-sale costs of biological assets	297,929,916	2,879,992	300,809,908
Remaining initial costs/transfers from advances to projects in prior year	(60,964,764)	(5,000,000)	(65,964,764)
Initial costs during the period (Note 10)	(43,021,750)	-	(43,021,750)
Gain on changes in fair value of biological assets	193,943,402	(2,120,008)	191,823,394
Remaining gain (loss) on changes in fair value recognized in prior period	(89,888,457)	2,120,008	(87,768,449)
Gain on changes in fair value recognized during the period	₱104,054,946	₱-	₱104,054,946

	December 31, 2013		
	Consumable	Bearer	Total
Fair value of biological assets	₱308,364,560	₱3,599,990	₱311,964,550
Estimated point-of-sale costs	(61,672,912)	(719,998)	(62,392,910)
Fair value less estimated point-of-sale costs of biological assets	246,691,648	2,879,992	249,571,640
Initial costs/transfers from advances to projects during the year (Note 10)	(98,302,875)	(5,000,000)	(103,302,875)
Gain on changes in fair value of biological assets	148,388,773	(2,120,008)	146,268,765
Gain on changes in fair value recognized during the year (Note 18)	₱148,388,773	-₱2,120,008	₱146,268,765

The Group's financial condition and results of operations may be adversely affected by any disruptions in the supply of, or the price fluctuations, for its major products.

There are no biological assets that are pledged as security for liabilities and whose title is restricted as at September 30, 2014 and December 31, 2013.

8. Advances to Projects

	September 30, 2014	December 31, 2013
Farm projects	₱383,575,819	₱383,575,819
Other Projects	288,956,736	267,577,736
	₱672,532,555	₱651,153,555

Advances to projects represent cash advances provided for farm projects and other projects related to brand building and management, business, property and plant/commissary development.

Advances to projects will be reclassified as “Biological Assets”, “Property, Plant and Equipment” or “Investment” once the project or business prospect materialize.

9. Prepayments and Other Current Assets

	<u>September 30, 2014</u>	<u>December 31, 2013</u>
Input value added taxes (VAT)	₱62,549,041	₱39,754,481
Prepayment and other current asset	32,365,817	671,423
Deposits	22,943,215	24,769,567
Prepaid rent	17,178,849	38,973,184
Creditable withholding tax	2,878,382	2,679,666
Prepaid Insurance	1,775,772	19,431,265
	<u>₱139,691,076</u>	<u>₱126,279,586</u>

Input tax represents the Value-Added Tax (VAT) paid on purchases of applicable goods and services, net of output tax, which can be recovered as tax credit against future tax liability of the Group upon approval by the Philippine Bureau of Internal Revenue (BIR) and/or the Philippine Bureau of Customs.

Rental deposits consist of payments made by the Company in advance in order to secure a rent.

10. Property, Plant and Equipment

December 31, 2013:	Land and Landrights	Building	Store warehouse equipment	Delivery transportation equipment	Machinery and equipment	Office furniture and fixtures	Leasehold improvement	Total
Cost:								
Balances at January 1	P 82,442,830	P 116,159,745	P 99,073,894	P 62,674,604	P 339,930,026	P 27,600,144	P 133,328,674	P 861,209,917
Additions	66,709,500	33,181,892	57,021,269	6,601,531	74,121,340	5,952,693	5,868,886	249,457,111
Disposals	-	-	-	(12,187,150)	-	-	-	(12,187,150)
Reclassification	-	-	-	-	186,544,736	-	-	186,544,736
Balances at December 31	149,152,330	149,341,637	156,095,163	57,088,985	600,596,102	33,552,837	139,197,560	1,285,024,614
Accumulated depreciation								
Balances at January 1	P -	P 14,593,110	P 27,407,629	P 16,053,063	P 65,567,931	P 10,267,819	P 40,384,574	P 174,274,126
Depreciation expense	-	6,500,959	6,891,888	8,324,624	23,707,898	3,225,939	22,355,344	71,006,652
Balances at December 31	-	21,094,069	34,299,517	24,377,687	89,275,829	13,493,758	62,739,918	245,280,778
Book Values at Dec. 31, 2013	P 149,152,330	P 128,247,568	P 121,795,646	P 32,711,298	P 511,320,273	P 20,059,079	P 76,457,642	P 1,039,743,836

September 30, 2014:	Land	Building	Store and warehouse equipment	Delivery and transportation equipment	Machinery and equipment	Office furniture and fixtures	Leasehold improvement	Total
Cost								
Balances at January 1	P 149,152,330	P 118,251,047	P 83,551,700	P 57,819,501	P 739,508,453	P 16,959,498	P 148,028,857	P 1,313,271,386
Additions	553,205,000	-	1,887,090	1,033,929	332,451	206,843	824,556	557,489,869
Disposal	-	-	-	(666,336)	-	(1,602)	-	(667,938)
Reclassifications	-	28,509,000	-	91,336	(28,524,943)	972,644	(5,370,064)	(4,322,027)
Balances at September 30	702,357,330	146,760,047	85,438,789	58,278,429	711,315,962	18,137,383	143,483,350	1,865,771,290
Accumulated depreciation								
Balances at January 1	P -	P 20,264,635	P 29,208,293	P 24,905,486	P 127,222,407	P 8,551,023	P 63,094,143	P 273,245,987
Depreciation Expense	P -	P 4,162,371	P 7,916,837	P 3,110,216	P 34,330,082	P 3,001,162	P 14,196,327	66,716,996
Disposal	-	-	-	-	-	-	-	-
Reclassifications	-	-	-	-	-	-	-	-
Balances at September 30	-	24,427,006	37,125,130	28,015,703	161,552,489	11,552,185	77,290,469	339,962,984
Book Values at September 30, 2014	P 702,357,330	P 122,333,041	P 48,313,659	P 30,262,726	P 549,763,472	P 6,585,198	P 66,192,880	P 1,525,808,307

11. Intangible Assets

September 30, 2014:	Trademark	Computer Software	Franchise	Goodwill	Total
Valuation					
At January 1, 2014	₱250,911,720	₱4,274,883	₱9,049,750	₱389,366,568	₱653,602,921
Additional	-	715,122	-	-	715,122
Reversal of revaluation surplus	-	-	-	-	-
Restatement addition	-	-	-	-	-
At September 30, 2014	250,911,720	4,990,005	9,049,750	389,366,568	654,318,043
Accumulated amortization/impairment loss					
At January 1, 2014	43,170	921,333	-	-	964,503
Amortization/impairment loss	-	843,613	-	-	843,613
At September 30, 2014	43,170	1,764,946	-	-	1,808,116
Net Balance	₱250,868,550	₱3,225,059	₱9,049,750	₱389,366,568	₱652,509,927

December 31, 2013:	Trademark	Computer Software	Franchise	Goodwill	Total
Valuation					
At January 1, 2013	₱200,227,710	₱1,899,244	₱9,049,750	₱29,989,414	₱241,166,118
Additional	50,684,011	2,375,639	-	359,377,154	412,436,804
At December 31, 2013	250,911,720	4,274,883	9,049,750	389,366,568	653,602,921
Accumulated amortization/impairment loss					
At January 1, 2013	43,170	508,278	-	-	551,448
Amortization/impairment loss	-	413,055	-	-	413,055
At December 31, 2013	43,170	921,333	-	-	964,503
Net Balance	₱250,868,550	₱3,353,550	₱9,049,750	₱389,366,568	₱652,638,418

12. Trade and other payables

	September 30, 2014	December 31, 2013
Trade payables	532,231,197	445,741,671
Nontrade payable on purchased equipment	161,805,000	161,805,000
Customers' deposits	49,660,568	23,270,383
Accrued expenses	21,473,781	14,561,985
Accrued interest payable	11,566,546	6,725,893
Advances related parties	1,249,250	1,249,250
Others	105,561,442	111,429,614
	883,547,784	764,783,796

The average credit period on purchases of certain goods from suppliers is 30 days from date of invoice.

Trade payables relate to payables to suppliers and relate to transactions in the ordinary course of business. Accrued expenses consist of accrued salaries and rental which are usual in the business operations of the Group. This account also includes accrual for professional fees that were already incurred but unpaid. Accrued interest payable pertains to interest in loans and borrowings that is usually payable on demand. Customers' deposit represents deposit for freight and will be paid to the freight forwarders. Withholding tax payable includes taxes withheld from

salaries of employees which will be remitted in the next month. Others represent other operating expenses that are payable to various suppliers and contractors.

13. Loans and Borrowings

	September 30, 2014	December 31, 2013
USD-Denominated		
Loan 1	P111,325,319	P156,409,197
Loan 2	105,233,185	86,700,690
PHP-Denominated		
Loan 3	340,997,000	318,325,000
Loan 4	219,324,000	279,300,000
Loan 5	100,000,000	100,000,000
Loan 6	77,500,000	99,122,130
Loan 7	50,000,000	50,000,000
Various debts	100,570,888	70,726,966
Total	P1,104,950,392	P1,160,583,983
Less current portion	(1,044,950,392)	(1,040,583,983)
Interest-bearing debts - net of current portion	P60,000,000	P120,000,000

Loans were obtained for working capital requirements and other operating requirements and are generally payable in one (1) year except for loan from Loan 5 and the convertible and redeemable note payable.

The Group obtained convertible and redeemable note from Black River Capital Partners Food Fund Holdings (Singapore) Pte. Ltd. as follows:

	Amount	Rate per Annum
Convertible Bonds	384,000,000	3%

The above loans and borrowings have interest rates as follows:

	Interest Rates per Annum
Philippine Peso	4% - 8.5%
Foreign Currency	3% - 3.5%

Interest expense incurred on the above loans for the semester ending September 30, 2014 amounted to P38,727,405 and 57,457,971 in 2014 and 2013 respectively.

14. Capital Stock

	2014		2013	
	Number of Shares	Amount	Number of shares	Amount
Authorized - 1 par value per share	1,000,000,000	1,000,000,000	1,000,000,000	1,000,000,000
Issued and outstanding	621,683,570	621,683,570	535,693,037	535,693,037

On March 31, 2014, the Board of Directors approved the proposed increase of authorized capital stock shares from 1,000,000 shares with P1 par value to 2,000,000,000 shares with par value and by the vote of the stockholders owning or representing at least 2/3 of the outstanding capital shares at a meeting held on June 23, 2014.

The increase in capital stock was due to fully paid subscription of Greenergy Holdings, Inc.

Subscriber	Nationality	Number of shares	Subscribed Amount	Amount paid-in capital	Premium
Greenergy Holdings, Inc.	Filipino	85,990,533	85,990,533	85,990,533	171,981,066
		85,990,533	85,990,533	85,990,533	171,981,066

15. Revenues

	2014	2013
Sale of goods	₱2,776,965,308	₱2,761,992,637
Service income	15,123,926	5,562,504
	₱2,792,089,234	₱2,767,555,141

Sale of goods pertains to agricultural produce and other related products.

Service income pertains to logistic services.

16. Cost of Sales and Services

	2014	2013
Inventories at January 1	₱121,137,973	₱134,863,797
Harvested agricultural produce	95,838,427	98,775,350
Purchases	1,926,455,456	2,384,197,251
Cost of goods available for sale	2,143,431,856	2,617,836,398
Inventory end	(154,396,821)	(344,527,636)
Cost of sales	1,989,035,035	2,273,308,762
Cost of services	7,092,189	2,614,377
	₱1,996,127,224	₱2,275,923,139

17. Other Operating Income

	2014	2013
Rent income	₱3,483,673	₱1,710,270
Interest income from farmers	180,923	-
Realized foreign exchange gain	29,496	-
Other income	36,078,968	40,145,485
	₱39,773,060	₱41,855,755

18. General and Administrative Expenses

	2014	2013
Salaries, wages and other employee benefits	209,582,779	127,161,939
Freight and handling cost	132,651,883	42,998,314
Contracted services	109,049,219	36,467,345
Rental	68,305,765	62,823,245
Depreciation and amortization	67,560,609	54,488,856
Professional fees	30,301,021	14,415,198
Communication, light and water	23,428,431	14,172,007
Repairs and maintenance	18,430,017	7,715,503
Supplies	16,550,298	9,762,822
Commissions	16,136,383	5,342,020
Taxes and licenses	10,565,706	11,427,815
Transportation and travel	10,072,843	9,114,334
Advertising	6,406,442	10,332,131
Others	27,757,153	13,194,131
	₱746,798,549	₱419,415,658

19. 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 enterprise and their key management personnel, directors, or its stockholders.

In the normal course of business, the Company transacts with entities which are considered related parties under PAS 24, *Related Party Disclosures*. Advances from a related party represent noninterest-bearing cash advances from related party for working capital requirements that are payable on demand.

Compensation of Key Management Personnel

The Company considers its management up to the President as key management personnel. Total remuneration of key management personnel, composed mainly of short-term employee benefits and provision for retirement benefits that are included under "Personnel costs" in the consolidated statement of income amounted to ₱25,370,772.23 as of September 30, 2014.

20. Pension Liability

The Group has unfunded, noncontributory defined benefit retirement plans covering substantially all of its employees.

Under the existing regulatory framework, Republic Act (RA) 7641, The Retirement Pay Law, requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

Changes in the unfunded pension liability for 2013 are as follows:

	2013
Beginning balance	₱5,249,535
Current service cost	1,119,264
Net interest	231,336
Net actuarial gain	14,576
Adjustment due to curtailment/settlement	370,234
Pension cost charged to consolidated statement of income	1,735,410
Actuarial loss on obligation	1,152,952
Contributions	(1,160,697)
	₱6,977,200

The table below demonstrates the sensitivity analysis to a reasonable possible change in defined benefit obligation, with all other variables held constant, of the various assumptions used in actuarial valuation as at December 31, 2013:

Assumptions	Change in assumption - increase (decrease)	Sensitivity to defined benefit obligation
Discount rates	0.50%	(₱39,860)
	(0.50%)	39,860
Future salary increase	0.50%	17,714
	(0.50%)	(17,714)

The Company's latest actuarial valuation report is as at and for the year ended December 31, 2013.

21. Income Taxes

Details of provision for income tax for the year are as follows:

	2014	2013
Current	₱3,436,207	₱4,198,188
Deferred	-	12,379,352
	₱3,436,207	₱16,577,540

22. Financial Risk Management and Capital Management Objectives and Policies

Financial Risk Management Objectives and Policies

The Company's principal financial instruments consist of cash, restricted cash and advances from a related party. The main purpose of these financial instruments is to finance the Company's normal course of its operating activities. The Company has various other financial assets and financial liabilities such as receivables, refundable deposits under "Other current assets" and accounts payable and other liabilities which arise directly from its operations.

The Company is exposed to interest rate risk, liquidity risk, credit risk and foreign currency risk. The main objective of the Company's financial risk management is to identify and monitor said risks in an ongoing basis and to minimize and mitigate such risks.

Interest Rate Risk

The Company's exposure to the risk that the value of its financial assets will fluctuate because of changes in market interest rates pertains to placements of restricted cash with fixed rates of interest ranging from 1.13% to 1.25% in 2013 and 0.75% in 2012 for US dollar placements and 0.75% to 2.25% in 2013 and 0.75% to 2.88% for 2012 for PHP placements. The Company opted not to disclose the sensitivity analysis on interest rate risk since placements of restricted cash are not material in relation to the financial statements as a whole.

Liquidity Risk

Liquidity risk is the risk that the Company will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit the risk, the Company maintains sufficient cash to meet operating capital requirements. The Company also monitors the maturities of its financial assets and financial liabilities and ensures that it has sufficient current assets to settle the current liabilities.

Credit Risk

Credit risk refers to the potential loss arising from any failure by counterparties to fulfill their obligations, as and when they fall due. It is inherent to the business as potential losses may arise due to the failure of its customers and counterparties to fulfill their obligations on maturity periods or due to adverse market conditions.

The Company has no significant concentration of credit risk with any single counterparty or group of counterparties having similar characteristics. Credit risk on financial assets which comprise cash, receivables, restricted cash and refundable deposits included in "Other current assets" arising from the default of the counterparty has a maximum exposure equal to the carrying amount of these financial instruments.

Cash in bank and restricted cash are assessed as high grade since this is deposited in a reputable bank, which has a low probability of insolvency.

- High grade receivables pertain to receivables from employees and program partners who consistently pay before the maturity date. Standard grade receivables are receivables that are collected on their due dates even without an effort from the Company to follow them up. Both high grade and standard grade receivables currently have no history of default.

Foreign currency risk

The Company is exposed to foreign currency risk on its outstanding foreign currency denominated financial assets and financial liabilities. To address the risk associated with the volatility of the foreign exchange rate, the Company actively monitors its currency exposures.

Capital Management Objectives and Policies

The primary objective of the Company capital management policy is to ensure that the fund balance is maintained at an adequate level. The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions.

23. Fair Value Measurement

The management assessed that the following financial instruments approximate their carrying amounts based on the methods and assumptions used to estimate the fair values:

Cash with banks

The carrying amount of cash with banks approximates their fair value due to the short-term nature and maturity of these financial instruments.

Trade and Other Receivables and Trade and Other Payables

Similarly, the carrying amounts of trade and other receivables and trade and other payables approximate their fair values due to the short-term nature of these accounts.

Note receivable

The carrying amount reported in the balance sheet for notes receivable approximates its fair value because the interest rates on the portfolio of notes receivable approximate current interest rates to be received on similar current notes receivable.

Loans and Borrowings

The fair values of loans and borrowings are based on the present value of future cash flows discounted using the current rates available for debt with the same maturity profile as at the end of the reporting period.

24. Lease Agreements

The Group has finance leases for various items of plant and machinery. These leases have terms of renewal, but no purchase options and escalation clauses. Renewals are at the option of the specific entity that holds the lease. Future minimum lease payments under finance leases with the present value of the net minimum lease payments.

Lease Agreement Between HEARBCO-2 and TRAIN

On February 7, 2014, HEARBCO-2 (the lessor) and TRAIN (the lessee) entered into a 60-year lease agreement until February 28, 2073, whereby a parcel of land, with an area of 2,943,254 square meters located at Madaum, Tagum City, Davao del Norte, including all improvements and biological assets therein, are to be leased to the lessee for an annual rental fee of ₱70,000 per hectare. As part of the lease consideration, TRAIN has outstanding liability to the lessee amounting to 316.4 million of March 31, 2014.

25. Business Combination and Goodwill

In 2013, the Group acquired the following subsidiaries for the purpose of global expansion and to explore counter-trading opportunities on countries where AgriNurture, Inc. operates.

Acquisition of Michsul Pty. Ltd. (MPL)

On July 1, 2013, the Group acquired one hundred percent (100%) ownership interest of MPL, a company registered in Australia, primarily engaged in food processing and distribution of fresh fruits and vegetables.

The carrying value of MPL's net assets at acquisition date are as follows:

Net Assets	P9,075,224
Percentage acquired	100%
Share on fair value of net assets acquired	9,075,224
Acquisition cost	85,826,778
Provisional Goodwill	P76,751,554

Acquisition of Joyful Fairy Fruits Ltd. (Hong Kong)

On January 1, 2013, the Group acquired fifty one percent (51%) ownership interest of Joyful Fairy Fruits Ltd. (Hong Kong), a company registered in Hong Kong, primarily engaged in distribution, importing and exporting of merchandise of all kinds.

The carrying value of Joyful Fairy Fruits Ltd. (Hong Kong)'s net liabilities at acquisition date are as follows:

Net Liabilities	P128,050,737
Percentage acquired	51%
Share on fair value of net assets acquired	65,305,876
Acquisition cost	102,625,000
Provisional Goodwill	P167,930,876

Acquisition of BSK Pty. Ltd (BPL)

On March 1, 2013, the Group acquired one hundred percent (100%) ownership of BPL, a company registered in Australia, primarily engaged in food processing and distribution of fresh fruits and vegetables.

The carrying value of BPL's net liabilities at acquisition date are as follows:

Net Liabilities	P23,752,337
Percentage acquired	100%
Share on fair value of net assets	23,752,337
Acquisition cost	75,203,642
Provisional Goodwill	P98,955,979

Based on the assumptions used, Goodwill recognized in 2013 is not impaired as at June 30, 2014.

26. Segment Information

The Group has identified its operating segments based on internal reports that are reviewed and used by the Chief Executive Officer (the chief operating decision maker) in assessing performance and in determining the allocation of resources. The operating segments identified

by the management are as follows: Export, Local Distribution, Banana Plantation/Farming, Retail and Others.

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

	September 30, 2014	September 30, 2013
Philippine operations		
Export	418,313,190	302,863,153
Local Distribution	208,694,816	277,314,326
Banana Plantation/Farming	81,772,557	230,105,377
Retail	84,156,862	105,869,644
Others	83,985,734	67,764,476
Sub-total	876,923,158	983,916,976
Foreign operations		
Hongkong/China	1,405,467,945	1,547,785,713
Australia	509,698,131	235,852,452
Sub-total	1,915,166,076	1,783,638,165
TOTAL REVENUE (CONSO)	2,792,089,234	2,767,555,141

* * *