**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 **June 30, 2020**

2. Commission identification number **CS201320778**

3. BIR Tax Identification No. **008-647-589-000**

4. **Century Pacific Food, Inc.**
   Exact name of issuer as specified in its charter

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

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

7. **7/F Centerpoint Bldg., Julia Vargas Ave. Garnet Rd. Ortigas Center Pasig City, 1605**
   Address of issuer's principal office Postal Code

8. **+632 - 8633 - 8555**
   Issuer's telephone number, including area code

9. **Not Applicable**
   Former name, former address and former fiscal year, if changed since last report

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

| Title of each Class | **Common Stock P1 par value** |
|---|---|
| Number of shares of common stock outstanding | **3,542,258,595 Shares** |

11. Are any or all of the securities listed on a Stock Exchange?
    Yes [**x**] No []

    If yes, state the name of such Stock Exchange and the class/es of securities listed therein:
    **Main Board of the Philippine Stock Exchange, Common Shares**

12. Indicate by check mark whether the registrant:

    (a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)
    Yes [**x**] No []

    (b) has been subject to such filing requirements for the past ninety (90) days.
    Yes [**x**] No []

## PART I – FINANCIAL INFORMATION

**Item 1. Financial Statements**

The unaudited interim consolidated financial statements of Century Pacific Food, Inc. and its wholly owned subsidiaries General Tuna Corporation, Snow Mountain Dairy Corporation, Allforward Warehousing Inc., Century Pacific Agricultural Ventures Inc., Century Pacific Food Packaging Ventures Inc., Century Pacific Seacrest Inc., Centennial Global Corporation, Century International (China) Co Ltd, Century (Shanghai) Trading Co Ltd, Cindena Resources Ltd, and Century Pacific North America Enterprise Inc. (collectively, the "Company" or "CNPF") as of and for the period ended June 30, 2020, and the comparative period in 2019 is attached to this 17-Q report, comprising of the following:

1.1 Consolidated Balance Sheets as of June 30, 2020, and December 31, 2019
1.2 Consolidated Statement of Income for the period ended June 30, 2020, and June 30, 2019
1.3 Consolidated Statement of Cash Flows for the period ended June 30, 2020, and June 30, 2019
1.4 Consolidated Statement of Changes in Shareholder's Equity for the period ended June 30, 2020, and June 30, 2019
1.5 Notes to Consolidated Financial Statements for the period ended June 30, 2020

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Based on the unaudited consolidated financial statements for the period ended June 30, 2020)**

***Business Overview***

Century Pacific Food, Inc. (CNPF) is one of the largest branded food companies in the Philippines. It owns a portfolio of well-known and trusted brands in the canned and processed fish, canned meat, and dairy and mixes business segments. These brands include *Century Tuna*, *555*, *Blue Bay*, *Fresca, Argentina*, *Swift, Wow*, *Lucky 7*, *Angel*, *Birch Tree, Kaffe de Oro,* and *Home Pride,* which have established leading market positions locally and a growing presence abroad. CNPF exports its branded products overseas, particularly where there are huge Filipino communities such as the United States and the Middle East. The Company is also one of the Philippines' largest exporters of original equipment manufacturer (OEM) tuna and coconut products.

CNPF traces its history from the Century Pacific Group, a focused branded food company for 40 years. Century Pacific Group began in 1978 when Mr. Ricardo S. Po established Century Canning Corporation as an exporter of canned tuna. In subsequent years, Century Canning Corporation then expanded and diversified into other food-related businesses. Establishing market leading positions, it built a multi-brand, multi-product portfolio catering to a broad and diverse customer base and supported this with a distribution infrastructure with nationwide reach, directly serving hundreds of thousands of retail outlets and food service companies.

In October 2013, the Po Family reorganized the Century Pacific Group to maximize business synergies and shareholder value. It incorporated CNPF, carving out the branded canned seafood, meat, dairy, mixes, and OEM tuna export businesses, folding them into CNPF. On January 1, 2014, CNPF commenced business operations under the new corporate set-up.

CNPF manages its food business through operating divisions and wholly-owned subsidiaries.

The canned and processed fish segment is CNPF's largest business segment. It produces and markets a variety mix of tuna, sardine, other fish, and seafood-based products under the *Century Tuna, 555, Blue Bay, Fresca,* and *Lucky 7* brands.

The canned meat segment, CNPF's second largest segment, produces corned beef, meat loaf, luncheon meat, and other meat-based products which are sold under the *Argentina, Swift, 555, Shanghai,* and *Wow* brands.

The dairy and mixes segment is comprised of products such as evaporated milk, condensed milk, full cream and fortified powdered milk, and all-purpose creamer under the *Angel* and *Birch Tree* brands, coffee mix under the *Kaffe de Oro* brand, and flavor mixes under the *Home Pride* brand.

The tuna export segment produces OEM canned tuna, pouched tuna, and vacuum-packed frozen tuna loin products for overseas markets including North America, Europe, Asia, Australia, and the Middle East.

The coconut segment, through wholly-owned subsidiary Century Pacific Agricultural Ventures, Inc., produces high value organic-certified and conventional coconut products for both export and domestic markets. These products include retail-packaged coconut water, organic virgin coconut oil, desiccated coconuts, coconut flour, and coconut milk. It currently also has other coconut-based products under development.

During 2016, CNPF acquired the license to the *Kamayan* trademark in North America, one of the top names in the U.S. market for shrimp paste – a popular condiment in Philippine cuisine locally known as *bagoong*. The Company also acquired distribution companies in China which sell *Century Tuna*, the leading canned tuna brand in China.

In May 2017, CNPF also acquired the Philippine license for *Hunt's*, the country's number one pork and beans brand. *Hunt's* product lineup currently includes pork and beans, tomato-based spaghetti sauce, tomato sauce, and marinade sauce.

In 2019, CNPF launched its own branded coconut cream under the *Coco Mama* brand, leveraging on the existing capabilities of its coconut OEM export business to further capitalize on the domestic market.

***Results of Operations***

- CNPF's consolidated net income after tax for the six months ended June 30, 2020, totaled P2.25 billion, representing a 31% growth versus the net income after tax of P1.71 billion reported during the first six months of 2019. Income performance can be mainly attributed to the above-average growth in branded revenues, and improved gross profit and operating income.

- Consolidated net revenue for the six months ended June 30, 2020, grew by 28% to P25.12 billion. Revenue performance can be largely attributed to the accelerated growth in Q2, owing to the above-average growth of the total branded business.

- CNPF's cost of sales consists primarily of raw material and packaging costs, manufacturing costs, and direct labor costs. Cost of sales for the six months ended June 30, 2020, reached P18.79 billion, 26% higher compared to the same period last year.

- CNPF’s consolidated gross profit for the six months ended June 30, 2020, amounted to P6.32 billion, a 36% increase from the same period in 2019. This represents a gross profit margin of 25.2% or an increase of 1.4 ppts over the gross profit margin during the same period last year.

- CNPF’s total operating expense, which is comprised of selling, distribution, marketing, and administrative expenses, totaled P3.25 billion or a 12.9% cost-to-sales ratio in the first six months of 2020. This represents a 0.7-ppt increase versus the cost-to-sales ratio of 12.2% during the same period in 2019.

- Other income and expense is comprised of gains or losses on transactions relating to foreign currency exchange, to sale of scrap and PPE, losses on inventory write down, management fees, and miscellaneous items. For the six months ended June 30, 2020, CNPF posted consolidated net other income of P26.66 million. Transactions relating to foreign currency exchange, to sale of scrap, and other miscellaneous income accounted for the bulk of this net other income.

- Consequently, CNPF’s consolidated operating income for the six months ended June 30, 2020, reached P3.11 billion compared to last year’s operating income of P2.39 billion. The resulting 12.4% operating income-to-sales ratio is higher relative to the 12.2% posted during the same period in 2019.

- CNPF’s financing cost is comprised of interest expense from short-term and long-term borrowings, bank charges, and other financing costs. For the six months ended June 30, 2020, financing costs amounted to P154.7 million. This is 20% lower compared to the same period last year mainly due to lower outstanding interest-bearing loans from debt repayments.

- Consolidated EBITDA (earnings before interest, taxes, depreciation, and amortization) for the six months ended June 30, 2020, amounted to P3.61 billion. This implies a slight expansion in EBITDA margin to 14.4% from 14.3% during the same period last year.

- The Company’s income tax expense totaled P705.8 million for the six months ended June 30, 2020, 45% higher versus the same period in 2019. CNPF’s effective tax rate of 23.9% is higher compared to last year’s 22.2%.

***Financial Condition***

The Company’s financial stability and financial position as of June 30, 2020, is as follows:

- Cash and cash equivalents reached P5.50 billion as of June 30, 2020. Operating activities registered a P5.38 billion total inflow, primarily driven by improvements in working capital level. Net cash used in investing activities amounted to P896 million, while net cash used in financing activities was P591 million.

- Current ratio stood at 2.02 times as of end June 2020, comparing to last year’s ratio of 2.13 times. The cash conversion cycle was lower at 80 days from 121 days as of end-December 2019. As of end June 2020, accounts receivable and inventory days stood at 69 and 122 respectively, while accounts payable came in at 111 days. Net working capital to total assets ratio is measured at 0.35 times, stable versus end-2019’s level of 0.36 times.

- Property, plant and equipment - net registered at P6.93 billion as of end June 2020. Capital expenditures for the first six months of the year totaled P914 million, consisting of the installation of new equipment and machinery at the different manufacturing facilities of the Company, as well as various capacity expansion activities.

- As of end June 2020, the Company's total interest-bearing debt amounted to P5.20 billion, P2.15 billion of which are short-term.

- Total stockholders' equity grew by P2.25 billion from P19.15 billion as of end December 2019 to P21.40 billion as of end June 2020, representing mainly the net income earned during the six-month period ending June 30, 2020.

- Gearing ratio, measured as total interest-bearing debt over total equity, stood at 0.24 times as of end June 2020, lower compared to 0.29 times as of end December 2019.

**Key Performance Indicators (KPIs)**

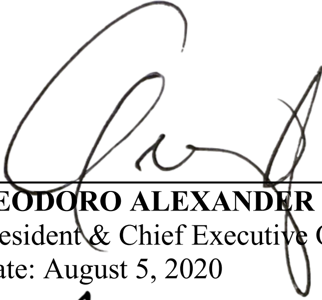
| | **Unaudited Six Months Ended June 30, 2020** | **Unaudited Six Months Ended June 30, 2019** |
|---|---|---|
| Gross Profit Margin | 25.2% | 23.8% |
| Before Tax Return on Sales | 11.7% | 11.2% |
| Return on Sales | 8.9% | 8.7% |
| Interest-Bearing Debt-to-Equity | 0.24X | 0.35X |
| Current Ratio | 2.02X | 2.13X |

***Notes:***
*1 Gross Profit margin = Gross Profit / Net Revenue*
*2 Before Tax Return on Sales = Net Profit Before Tax / Net Revenue*
*3 Return on Sales = Net Profit After Tax / Net Revenue*
*4 Interest-Bearing Debt-to-Equity = Loans Payable / Total Stockholders' Equity*
*5 Current Ratio = Total Current Assets / Total Current Liabilities*

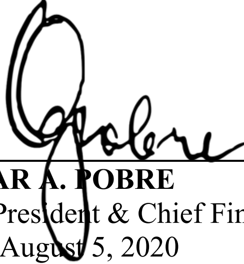
**SIGNATURES**

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.

**CENTURY PACIFIC FOOD, INC.**



**TEODORO ALEXANDER T. PO**
President & Chief Executive Officer
Date: August 5, 2020



**OSCAR A. POBRE**
Vice President & Chief Finance Officer
Date: August 5, 2020

**CENTURY PACIFIC FOOD, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
(Amounts in Philippine Peso)

| | Unaudited June 30, 2020 | Audited December 31, 2019 |
|---|---|---|
| **Assets** | | |
| Current Assets | | |
| Cash and cash equivalents | 5,500,140,380 | 1,607,844,054 |
| Trade and Other Receivables - net | 8,667,551,093 | 7,000,528,129 |
| Inventories - net | 11,632,753,411 | 11,781,872,042 |
| Biological Assets | 61,961,903 | 33,380,356 |
| Due from Related Parties | 284,592,505 | 261,588,910 |
| Prepayments and other current assets | 678,720,046 | 829,609,933 |
| Total Current Assets | 26,825,719,339 | 21,514,823,425 |
| Property, plant & equipment - net | 6,925,863,608 | 6,414,543,344 |
| Right of use asset - net | 657,100,635 | 705,437,893 |
| Intangible Assets | 3,493,734,532 | 3,504,492,452 |
| Deferred Tax assets | 360,318,999 | 359,681,319 |
| Other non-current assets | 122,400,194 | 89,793,117 |
| Total Non-current Assets | 11,559,417,967 | 11,073,948,125 |
| **Total Assets** | **38,385,137,306** | **32,588,771,549** |
| | | |
| **Liabilities & Stockholders' Equity** | | |
| Liabilities | | |
| Current Liabilities | | |
| Trade and Other Payables | 10,558,375,302 | 6,832,729,150 |
| Due to Related Parties | 44,352,432 | 19,706,847 |
| Income Tax Payable | 340,983,985 | 148,438,723 |
| Finance Lease obligation - current | 199,063,769 | 269,082,105 |
| Notes Payable | 2,148,500,000 | 2,433,508,587 |
| Total Current Liabilities | 13,291,275,488 | 9,703,465,412 |
| Long Term Loan | 3,048,250,000 | 3,086,500,000 |
| Retirement Benefit Payable | 144,498,420 | 160,025,025 |
| Finance Lease obligation - non-current | 501,770,197 | 484,103,079 |
| Deferred Tax liability | 565,480 | 360,285 |
| Total Non Current Liabilities | 3,695,084,097 | 3,730,988,389 |
| Total Liabilities | 16,986,359,586 | 13,434,453,802 |
| Stockholders' Equity | | |
| Share Capital | 3,542,258,595 | 3,542,258,595 |
| Share Premium | 4,936,859,146 | 4,936,859,146 |
| Currency translation adjustments | 25,235,581 | 25,440,484 |
| Retained Earnings | 12,855,584,058 | 10,610,919,182 |
| Share-based compensation reserve | 8,211,398 | 8,211,398 |
| Appraisal Increment / Other Reserves | 30,628,942 | 30,628,942 |
| Total Stockholders' Equity | 21,398,777,720 | 19,154,317,748 |
| **Total Liabilities & Stockholders' Equity** | **38,385,137,306** | **32,588,771,549** |

**CENTURY PACIFIC FOOD, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
(Amounts in Philippine Peso)

| | For the Six Months Ended June 30, 2020 | For the Six Months Ended June 30, 2019 |
|---|---|---|
| Net Revenue | 25,117,619,267 | 19,611,253,855 |
| Cost of Good Sold | 18,794,292,560 | 14,946,886,003 |
| **Gross Profit** | **6,323,326,707** | **4,664,367,852** |
| Other Income (Expense) | 26,660,105 | 112,874,291 |
| Operating Expenses | 3,244,873,189 | 2,386,032,751 |
| Operating Income | 3,105,113,623 | 2,391,209,392 |
| Financing Cost | 154,662,004 | 192,965,791 |
| Net Profit before tax | 2,950,451,619 | 2,198,243,601 |
| Income Tax Expense (Benefit) | 705,786,743 | 488,338,826 |
| Net Profit after Tax | 2,244,664,875 | 1,709,904,775 |
| Other Comprehensive Income | (204,903) | (16,407,645) |
| **Total Comprehensive Income** | **2,244,459,972** | **1,693,497,130** |
| **Basic and Diluted Earnings Per Share** | **0.63** | **0.48** |

**CENTURY PACIFIC FOOD, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
(Amounts in Philippine Peso)

| | For the Three Months Ended June 30, 2020 | For the Three Months Ended June 30, 2019 |
|---|---|---|
| Net Revenue | 13,008,038,098 | 9,867,034,481 |
| Cost of Good Sold | 9,802,700,302 | 7,382,582,431 |
| **Gross Profit** | **3,205,337,796** | **2,484,452,050** |
| Other Income (Expense) | (13,272,739) | 5,336,562 |
| Operating Expenses | 1,535,257,086 | 1,214,225,590 |
| Operating Income | 1,656,807,971 | 1,275,563,021 |
| Financing Cost | 78,145,416 | 101,831,781 |
| Net Profit before tax | 1,578,662,555 | 1,173,731,241 |
| Income Tax Expense (Benefit) | 372,211,634 | 256,369,449 |
| Net Profit after Tax | 1,206,450,921 | 917,361,791 |
| Other Comprehensive Income | (294,823) | (1,560,463) |
| **Total Comprehensive Income** | **1,206,156,098** | **915,801,328** |
| **Basic and Diluted Earnings Per Share** | **0.34** | **0.26** |

**CENTURY PACIFIC FOOD, INC. AND SUBSIDIARIES**
**CONSOLIDATED CHANGES IN EQUITY**
(Amounts in Philippine Peso)

| | Capital Stock | Additional Paid-in Capital | Revaluation Reserves | | | Unappropriated Retained Earnings | Appropriated Retained Earnings | Total |
|---|---|---|---|---|---|---|---|---|
| | | | Shared Based | Reserves | Foreign Curreny Translation Gain | | | |
| Balance at January 1, 2020 | | | | | | | | |
| As previously reported | 3,542,258,595 | 4,936,859,146 | 8,211,398 | 30,628,942 | 25,440,484 | 9,252,403,696 | 1,358,515,486 | 19,154,317,748 |
| Adjustments | | | | | | | | - |
| As stated | 3,542,258,595 | 4,936,859,146 | 8,211,398 | 30,628,942 | 25,440,484 | 9,252,403,696 | 1,358,515,486 | 19,154,317,748 |
| Total comprehensive income | | | | | | | | |
| Net profit for the year | | | | | | 2,244,664,875 | | 2,244,664,875 |
| Foreign currency translation gain | | | | | (204,903) | | | (204,903) |
| Shared based | | | | | | | | - |
| Actuarial loss on post-employment benefit | | | | | | - | | - |
| Total other comprehensive income | - | - | - | - | (204,903) | 2,244,664,875 | - | 2,244,459,972 |
| **Balance as of June 30, 2020** | **3,542,258,595** | **4,936,859,146** | **8,211,398** | **30,628,942** | **25,235,581** | **11,497,068,572** | **1,358,515,486** | **21,398,777,720** |
| Balance at January 1, 2019 | | | | | | | | |
| As previously reported | 3,542,258,595 | 4,936,859,146 | 8,211,398 | 30,628,942 | 42,513,081 | 6,564,800,569 | 1,599,300,000 | 16,724,571,731 |
| Adjustments | | | | | | | | - |
| As stated | 3,542,258,595 | 4,936,859,146 | 8,211,398 | 30,628,942 | 42,513,081 | 6,564,800,569 | 1,599,300,000 | 16,724,571,731 |
| Total comprehensive income | | | | | | | | |
| Net profit for the year | | | | | | 1,709,904,775 | | 1,709,904,775 |
| Foreign currency translation gain | | | | | (16,407,645) | | | (16,407,645) |
| Shared based | | | | | | | | - |
| Actuarial loss on post-employment benefit | | | | | | - | | - |
| Total other comprehensive income | - | - | - | - | (16,407,645) | 1,709,904,775 | - | 1,693,497,130 |
| **Balance as of June 30, 2019** | **3,542,258,595** | **4,936,859,146** | **8,211,398** | **30,628,942** | **26,105,436** | **8,274,705,344** | **1,599,300,000** | **18,418,068,861** |

**CENTURY PACIFIC FOOD, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENT OF CASH FLOWS**
(Amounts in Philippine Peso)

| | For the Six Months Ended June 30, 2020 | For the Six Months Ended June 30, 2019 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Profit before tax | 2,950,451,619 | 2,198,243,601 |
| Adjustments for : | | |
| Depreciation and amortization | 504,594,606 | 421,560,945 |
| Adjustments on Foreign Currrency Translation | (204,903) | (16,407,645) |
| Finance Costs | 154,662,004 | 192,965,791 |
| Operating cash flows before working capital changes | 3,609,503,326 | 2,796,362,692 |
| Decrease (increase) in trade and other receivables | (1,667,022,964) | (202,877,481) |
| Decrease (increase) in inventory | 120,537,084 | (1,522,330,094) |
| Decrease (increase) in related party | 1,641,990 | (16,572,329) |
| Decrease (increase) in prepayments and other current assets | 150,889,887 | (251,845,152) |
| Decrease (increase) in deferred tax asset | (637,680) | (1,214,559) |
| Decrease (increase) in non current assets | (32,607,077) | (22,553,713) |
| Increase (decrease) in trade and other payables | 3,725,646,152 | (301,679,180) |
| Increase (decrease) in income tax payables | 192,545,262 | 198,256,639 |
| Increase (decrease) in retirement payable | (15,526,605) | (8,198,215) |
| Increase (decrease) in deferred tax liability | 205,195 | 8,156 |
| Cash generated from operations | 6,085,174,570 | 667,356,765 |
| Income taxes paid | (705,786,743) | (488,338,826) |
| Net Cash From Operating Activities | 5,379,387,827 | 179,017,939 |
| | | |
| **Cash Flows from Investing activities** | | |
| Acquisition of property and equipment | (913,624,029) | (711,352,533) |
| Disposal of property and equipment | 17,621,867 | 3,643,993 |
| Net Cash From (Used in) Investing Activities | (896,002,162) | (707,708,540) |
| | | |
| **Cash Flows from Financing Activities** | | |
| Proceeds (Repayment) of interest - bearing loans | (323,258,587) | 208,945,817 |
| Increase (decrease) in finance lease liability | (113,168,748) | |
| Interest paid | (154,662,004) | (192,965,791) |
| Net Cash From (Used in) Financing Activities | (591,089,339) | 15,980,026 |
| | | |
| **Net Increase in cash and Cash Equivalents** | **3,892,296,325** | **(512,710,575)** |
| **Cash and Cash Equivalents at Beginning of Period** | **1,607,844,054** | **1,676,474,925** |
| **Cash and Cash Equivalents at End of Period** | **5,500,140,380** | **1,163,764,351** |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. CORPORATE INFORMATION

Century Pacific Food, Inc. (the "Parent Company") was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on October 25, 2013. The Parent Company is primarily engaged in the business of buying and selling, processing, canning and packaging and manufacturing all kinds of food and food products, such as but not limited to fish, seafood and other marine products, cattle, hog and other animals and animal products, fruits, vegetables and other agricultural crops and produce of land, including by-products thereof.

The Parent Company's shares of stocks were listed in the Philippines Stock Exchange (PSE) on May 6, 2014, through initial public offering (IPO) and listing of 229.65 million shares in the PSE at a total value of P3.3 billion.

The Parent Company is a 68.71% owned subsidiary of Century Pacific Group, Inc. (CPGI) the ultimate parent, as of June 30, 2020.

CPGI is a corporation registered with the Philippine SEC and domiciled in the Philippines.

The Parent Company's registered office and principal place of business, is located at 7$^{th}$ floor, Centerpoint Building, Julia Vargas St., Ortigas Center, Pasig City.

### 2. FINANCIAL REPORTING FRAMEWORK AND BASIS OF PREPARATION AND PRESENTATION

**Statement of Compliance**

The consolidated financial statements of the Parent Company and its subsidiaries (the "Group") have been prepared in accordance with Philippine Financial Reporting Standards (PFRS), which includes all applicable PFRS, Philippine Accounting Standards (PAS), and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), Philippine Interpretations Committee (PIC) and Standing Interpretations Committee (SIC) as approved by the Financial Reporting Standards Council (FRSC) and the Board of Accountancy (BOA), and adopted by the SEC.

**Basis of Preparation and Presentation**

The consolidated financial statements have been prepared on the historical cost basis, except for:

- certain financial instruments carried at amortized cost;
- inventories carried at the lower of cost and net realizable value (NRV); and
- the net retirement benefit obligation recognized as the net total of the fair value of plan assets less the present value of the defined benefit obligation.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that will be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of PFRS 2, *Share-based Payment*, leasing transactions that are within the scope of PAS 17, *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in PAS 2, *Inventories,* or value in use in PAS 36, *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorized into Levels 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Functional currency

The functional currency of Century Pacific Food, Inc. (CPFI), Snow Mountain Dairy Corporation (SMDC), Allforward Warehousing Inc. (AWI), Century Pacific Agricultural Ventures, Inc. (CPAVI), Century Pacific Seacrest Inc. (CPSI), Century Pacific Food Packaging Ventures, Inc. (CPFPVI), is Philippine Peso (PHP), the currency of the primary economic environment in which they operate. The functional currency of General Tuna Corporation (GTC) and Century Pacific North America (CPNA) is United States (US) Dollar, the currency of the primary economic environment in which they operate.
The functional currency of Century International (China) Co. Ltd. (CIC), Century (Shanghai) Trading Co. Ltd. (CST) and Cindena Resources Limited (CRL) is Chinese Yuan, the currency of the primary economic environment in which they operate.

Presentation currency

These financial statements are presented in PHP. The financial position and results of operations of GTC and CPNA were translated from US Dollar to PHP, and CIC, CST and CRL from Chinese Yuan to PHP, using the following procedures:

- assets and liabilities, except those assets presented at historical costs, for each statement of financial position presented, are presented at the closing rate at the date of that statement of financial position;
- for each period presented, income and expenses recognized in the period by GTC, CPNA, CIC, CST and CRL are translated using either the rate at the date of the transaction or the average exchange rate at that period; and
- all resulting exchange differences are recognized in other comprehensive income (OCI) as currency translation adjustment.

All amounts are recorded in the nearest peso, except when otherwise indicated.

**Subsidiaries**

Details of the Company's subsidiaries as of June 30, 2020, are as follows:

| Subsidiary | Business | % Ownership | Country of Residence |
|---|---|---|---|
| Snow Mountain Dairy Corporation (SMDC) | Producing, canning, freezing, preserving, refining, packing, buying and selling wholesale and retail, food products including all kinds of milk and dairy products, fruits and vegetable juices and other milk or dairy preparation and by-products. | 100 | Philippines |
| General Tuna Corporation (GTC) | Manufacturing and exporting of OEM canned, pouched and frozen tuna products. | 100 | Philippines |
| Allforward Warehousing Inc. (AWI) | Operating warehouse facilities | 100 | Philippines |
| Century Pacific Agricultural Ventures, Inc. (CPAVI) | Manufacturing high value organic-certified and conventional coconut products for both export and domestic markets. | 100 | Philippines |
| Century Pacific Seacrest Inc. (CPSI) | Developing, maintaining, licensing and administering marks and all kinds of intellectual property | 100 | Philippines |
| Centennial Global Corporation (CGC) | Trademark holding company | 100 | BVI |
| Century Pacific Food Packaging Ventures, Inc. (CPFPVI) | Manufacturing tin cans and other packaging materials | 100 | Philippines |
| Century International (China) Company Limited (CIC) | Marketing and distribution of canned food products | 100 | China |
| Century (Shanghai) Trading Company Limited (CST) | Marketing and distribution of canned food products | 100 | China |
| Cindena Resources Limited (CRL) | Trademark holding company | 100 | BVI |
| Century Pacific North America Enterprise Inc. (CPNA) | Marketing and distribution of various food products | 100 | USA |

The significant financial information on the financial statements of wholly-owned subsidiaries of the Parent Company are shown below. The summarized financial information represents amounts before intragroup eliminations.

**CNPF**

The significant stand-alone information on the financial statements of CNPF as of June 30, 2020, and December 31, 2019, are as follows:

| | As of June 30, 2020 | As of December 31, 2019 |
|---|---|---|
| Financial position: | | |
| Current assets | 20,237,194,888 | 14,442,937,626 |
| Non-current assets | 10,317,195,982 | 10,042,779,584 |
| Total assets | 30,554,390,870 | 24,485,717,210 |
| Current liabilities | 11,327,473,152 | 6,428,972,826 |
| Non-current liabilities | 3,542,000,039 | 3,612,210,318 |
| Total liabilities | 14,869,473,190 | 10,041,183,144 |
| Equity | 15,684,917,679 | 14,444,534,066 |

**SMDC**

SMDC was incorporated in the Philippines and was registered with the Philippine SEC on February 14, 2001. SMDC is engaged in producing, canning, freezing, preserving, refining, packing, buying and selling at wholesale and retail, food products including all kinds of milk and dairy products, fruits and vegetable juices and other milk or dairy preparations and by-products. Its principal place of business is located at 32 Arturo Drive, Bagumbayan, Taguig City, Philippines.

The significant information on the financial statements of SMDC as at June 30, 2020, and December 31, 2019, are as follows:

| | As of June 30, 2020 | As of December 31, 2019 |
|---|---|---|
| Financial position: | | |
| Current assets | 4,644,060,723 | 3,926,413,678 |
| Non-current assets | 688,777,514 | 629,634,109 |
| Total assets | 5,332,838,238 | 4,556,047,787 |
| Current liabilities | 3,376,530,058 | 2,885,215,085 |
| Non-current liabilities | 61,318,947 | 60,776,010 |
| Total liabilities | 3,437,849,005 | 2,945,991,094 |
| Equity | 1,894,989,233 | 1,610,056,693 |

**GTC**

GTC was incorporated in the Philippines and was registered with the Philippine SEC on March 10, 1997. GTC is presently engaged in manufacturing and exporting private label canned, pouched, and frozen tuna products. Its processing plant is located at Purok Lansong, Brgy. Tambler, General Santos City, Philippines.

The significant information on the financial statements of GTC as June 30, 2020, and December 31, 2019, are as follows:

| | As of June 30, 2020 | As of December 31, 2019 |
|---|---|---|
| Financial position: | | |
| Current assets | 4,000,347,234 | 3,584,769,432 |
| Non-current assets | 1,179,521,688 | 976,627,267 |
| Total assets | 5,179,868,922 | 4,561,396,699 |
| Current liabilities | 2,321,406,801 | 1,913,384,179 |
| Non-current liabilities | 72,964,404 | 39,406,549 |
| Total liabilities | 2,394,371,205 | 1,952,790,728 |
| Equity | 2,785,497,717 | 2,608,605,971 |

**AWI**

AWI was incorporated in the Philippines and was registered with the Philippine SEC on October 3, 2014. AWI is engaged in the business of operating cold storage facilities, handling, leasing, maintaining, buying, selling, warehouse and storage facilities, including its equipment, forklift, conveyors, pallet towers and other related machineries, tools and equipment necessary in warehousing, and storage operation. Its principal place of business is located at Purok Lansong, Barangay Calumpang, General Santos City, Philippines.

AWI started its commercial operations on September 1, 2015, by leasing out its dry warehouse.

On August 25, 2015, AWI registered its Cold Storage Facilities with Board of Investments (BOI) for Income Tax Holiday (ITH) provided under Article 39(a) of Executive Order No. 226, otherwise known as the Omnibus Investments Code of 1987, as amended by R.A 7918. AWI is entitled for ITH from March 1, 2016, to February 28, 2020. Other income that arises outside from the registered activities of the Company and local services in excess of 30% is subject to the statutory rate of 30%.

The construction of the cold storage warehouse facility was completed on June 30, 2016, and AWI started to lease out the cold storage facility on the same date.

The significant information on the financial statements of AWI as at June 30, 2020, and December 31, 2019, are as follows:

| | As of June 30, 2020 | As of December 31, 2019 |
|---|---|---|
| Financial position: | | |
| Current assets | 163,951,884 | 103,387,395 |
| Non-current assets | 558,827,711 | 559,118,008 |
| Total assets | 722,779,595 | 662,505,403 |
| Current liabilities | 109,813,649 | 95,983,601 |
| Non-current liabilities | 252,064 | 252,064 |
| Total liabilities | 110,065,713 | 96,235,665 |
| Equity | 612,713,882 | 566,269,737 |

**CPAVI**

CPAVI was incorporated in the Philippines and was registered with the Philippine SEC on August 29, 2012. CPAVI is engaged in the business of manufacturing and distributing all kinds of food and beverage products and other foodstuffs derived from fruits and other agricultural products. Its principal place of business is located at Purok Lansong, Barangay Tambler, General Santos City, Philippines.

On December 22, 2015, the Parent Company entered into a share purchase agreement with CPGI to acquire 100% equity interest in CPAVI for a total purchase price of P3,396,810,681. To facilitate the acquisition, the Parent Company availed of short term loans of P2,250,000,000 from certain financial institutions. The agreement also provided for the Parent Company to advance to CPAVI a total amount of P1,103,189,333 for the latter to settle its advances to CPGI. The sale was completed when CPGI and the Parent Company signed the deed of absolute sale covering the CPAVI shares on December 29, 2015. On August 10, 2016, the SEC approved the increase in CPAVI's share capital from P350,000,000 to P1,500,000,000. On the same date, the advances of the Parent Company were converted to equity shares of stock.

The significant information on the financial statements of CPAVI as at June 30, 2020, and December 31, 2019, are as follows:

| | As of June 30, 2020 | As of December 31, 2019 |
|---|---|---|
| Financial position: | | |
| Current assets | 1,616,625,755 | 1,408,387,380 |
| Non-current assets | 2,158,690,191 | 2,176,677,649 |
| Total assets | 3,775,315,946 | 3,585,065,029 |
| Current liabilities | 594,366,018 | 564,427,021 |
| Non-current liabilities | 15,990,260 | 15,785,065 |
| Total liabilities | 610,356,278 | 580,212,086 |
| Equity | 3,164,959,668 | 3,004,852,943 |

**CPSI**

CPSI was incorporated in the Philippines and was registered with the Philippine SEC on November 13, 2015. CPSI is engaged in the business of developing and designing, acquiring, selling, transferring, exchanging, managing, licensing, franchising and generally in exercising all rights, powers and privileges of ownership or granting any right or privilege of ownership or any interest to label marks, devices, brands, trademark rights and all other forms of intellectual property, including the right to receive, collect and dispose of any and all payments, dividends, interests and income derived there from. On December 28, 2015, CPSI entered into a Trademark Purchase Agreement to purchase certain trademarks owned by CGC for a total consideration of P50,000,000. The trademarks purchased include brands such as “Century Tuna,” “Argentina,” “555,” “Wow Ulam,” “Birch Tree,” “Fresca,” “Lucky 7,” and “Angel Evaporada,” among others. Its principal place of business is located at 7th Floor, Centerpoint Building, J. Vargas Avenue Corner Garnet Road, Ortigas Center, Pasig City, Philippines.

CPSI started its commercial operations in 2016.

The significant information on the financial statements of CPSI as at June 30, 2020, and December 31, 2019, are as follows:

| | As of June 30, 2020 | As of December 31, 2019 |
|---|---|---|
| Financial position: | | |
| Current assets | 440,105,966 | 131,263,494 |
| Non-current assets | 111,474,788 | 111,474,788 |
| Total assets | 551,580,754 | 242,738,282 |
| Total liabilities | 373,435,628 | 168,459,603 |
| Equity | 178,145,126 | 74,278,679 |

**CGC**

CGC was incorporated in the British Virgin Islands (BVI) on November 13, 2006. CGC is a company limited by shares. On February 25, 2015, the Parent Company acquired 100% interest in CGC for $100 or P4,438 from Shining Ray Limited, a wholly owned subsidiary of CPGI. CGC is the corporate vehicle that holds the various brands, trademarks, and related intellectual property of the Century Group of Companies. On December 28, 2015, CGC sold certain trademarks to CPSI for a total consideration of P50,000,000. CGC's registered office is at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands and its registered agent is Offshore Incorporations Limited.

The significant information on the financial statements of CGC as at June 30, 2020, and December 31, 2019, are as follows:

| | As of June 30, 2020 | As of December 31, 2019 |
|---|---|---|
| Financial position: | | |
| Total assets | 50,004,439 | 50,004,439 |
| Equity | 50,004,439 | 50,004,439 |

**CPFPVI**

CPFPVI was incorporated in the Philippines and registered with Philippine SEC on June 29, 2016. CPFPVI is engaged in the business of manufacturing, processing, buying, selling, importing, exporting and dealing in all kinds of packaging products. Its registered place of business is located at Purok Lansong, Barangay Calumpang, General Santos City.

The significant information on the financial statements of CPFPVI as at June 30, 2020, and December 31, 2019, are as follows:

| | As of June 30, 2020 | As of December 31, 2019 |
|---|---|---|
| Financial position: | | |
| Current assets | 1,276,565,207 | 899,189,465 |
| Non-current assets | 820,624,539 | 845,328,570 |
| Total assets | 2,097,189,746 | 1,744,518,035 |
| Current liabilities | 811,832,668 | 694,767,183 |
| Non-current liabilities | 2,558,384 | 2,558,384 |
| Total liabilities | 814,391,052 | 697,325,566 |
| Equity | 1,282,798,694 | 1,047,192,469 |

**CIC**

CIC was incorporated in China and was registered on June 9, 2003. CIC is engaged in the selling of hardware and electrical apparatus, auto spare parts, building decoration materials and products, telecommunication equipment, stationery commodities, mechanical equipment, pre-package food; wholesales of beverage; development and sale of computer software and hardware; and consulting services. Its registered address is Room A3011, No. 70 Licheng Road, Pudong New Area, Shanghai, China.

The significant information on the financial statements of CIC as at June 30, 2020, and December 31, 2019, are as follows:

| | As of June 30, 2020 | As of December 31, 2019 |
|---|---|---|
| Financial position: | | |
| Current assets | 80,404,535 | 95,321,469 |
| Non-current assets | 736,253 | 885,651 |
| Total assets | 81,140,789 | 96,207,120 |
| Total liabilities | 125,480,983 | 145,300,083 |
| Equity | (44,340,195) | (49,092,964) |

**CST**

CST was incorporated in China and was registered on August 24, 2005. CST is engaged in the wholesale, import and export of food, provision of ancillary services, relevant business consulting services subject to administrative approval and relevant authority. Its registered address is at Room 520A, No. 335 Changli Road, Pudong New District, Shanghai, China.

The significant information on the financial statements of CST as at June 30, 2020, and December 31, 2019, are as follows:

| | As of June 30, 2020 | As of December 31, 2019 |
|---|---:|---:|
| Financial position: | | |
| Total assets | 35,152,018 | 45,102,428 |
| Total liabilities | 600,948 | 3,444,921 |
| Equity | 34,551,070 | 41,657,507 |

**CRL**

CRL was originally incorporated in the BVI under The International Business Companies Act (CAP.291) on March 27, 2002. CRL is engaged in the purchase or otherwise acquire and undertake the whole or any part of the business, goodwill, assets and liabilities of any person, firm or company, to import, export, buy, sell, exchange, barter, let on hire, distribute, and otherwise deal in and turn to account goods, materials, commodities, produce and merchandise generally in their prepared, manufactured, semi-manufactured and raw state, to enter into, carry on and participate in financial transactions and operations of all kinds and to manufacture, construct, assemble, design, repair, refine, develop, alter, convert, process, and otherwise produce materials, fuels, chemicals, substance and industrial, commercial and consumer products of all kinds. The Company was re-registered under the BVI Business Companies Act (No. 16 of 2004) on January 1, 2009, upon the compulsory implementation of the new Act. CRL's registered office is at P.O. Box 957, Offshore Incorporations Center, Road Town, Tortola, British Virgin Islands and its registered agent is Offshore Incorporations Limited.

The significant information on the financial statements of CRL as at June 30, 2020, and December 31, 2019, are as follows:

| | As of June 30, 2020 | As of December 31, 2019 |
|---|---:|---:|
| Financial position: | | |
| Total assets | 100 | 100 |
| Equity | 100 | 100 |

On December 28, 2016, the Parent Company entered into an equity transfer agreement to acquire 100% ownership in CIC, CST, and CRL for the purchase consideration amounts of P65,156,584, P62,177,311 and P100 (equivalent to $1,308,155, $1,247,187 and $2). Based on the equity transfer agreement, the equity transfer shall take legal effect upon issuance of Foreign Investment Enterprise approval certificate by the approval authority. The full consummation of the equity transfer shall take place after all of the closing conditions set forth in the transfer agreement have been satisfied.

On February 23, 2017, the Group obtained an updated business license for CST reflecting the Parent Company as CST's new registered owner. On March 8, 2017, the Group obtained a Certificate of Incumbency, issued by a BVI registered agent, attesting the change of management control in CRL to the Parent Company.

**CPNA**

CPNA was incorporated in the United States and was registered with the Secretary of State of California on April 20, 2017, as a domestic stock company type. CPNA is engaged in any lawful act or activity for which a corporation may be organized under the General Corporation Law of California other than the banking business, the trust company business or the practice of a profession permitted to be incorporated by the California Corporation Code. The agent for service process in this state is Vcorp Services CA, Inc. The registered address of CPNA is at 350 N. Glendale Avenue Ste B348, Glendale, California 91206. Its principal place of business is at 7th Floor, Centerpoint Building, J. Vargas Avenue Corner Garnet Road, Ortigas Center, Pasig City, Philippines.

The significant information on the financial statements of CPNA as at June 30, 2020, and December 31, 2019, are as follows:

| | As of June 30, 2020 | As of December 31, 2019 |
|---|---|---|
| Financial position: | | |
| Current assets | 256,187,865 | 150,895,844 |
| Non-current assets | 7,372,198 | 8,032,504 |
| Total assets | 263,560,062 | 158,928,348 |
| Total liabilities | 227,714,699 | 136,050,042 |
| Equity | 35,845,363 | 22,878,306 |

## ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

### Adoption of New and Revised Accounting Standards Effective in 2018

The Group adopted all accounting standards and interpretations as at December 31, 2018. The new and revised accounting standards and interpretations that have been published by the International Accounting Standards Board (IASB) and approved by the FRSC in the Philippines, assessed to be applicable to the Group's financial statements, are as follows:

Amendments to PFRS 2, *Classification and Measurement of Share-based Payment Transactions*

The amendments to PFRS 2 clarify the following:

a. The amendment added guidance that introduces accounting requirements for cash-settled share-based payments that follows the same approach as used for equity-settled share-based payments.

b. The amendment has introduced an exception into PFRS 2 so that a share-based payment where the entity settles the share-based payment arrangement net is classified as equity-settled in its entirety provided the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

c. The amendment has introduced the following clarifications:

- On modifications, the original liability recognized in respect of the cash-settled share-based payment is derecognized and the equity-settled share-based payment is recognized at the modification date fair value to the extent services have been rendered up to the modification date.

- Any difference between the carrying amount of the liability as at the modification date and the amount recognized in equity at the same date would be recognized in profit and loss immediately.

The Group assessed that the amendments have no significant impact on the Group's consolidated financial statements as the Group does not have any cash-settled share-based payment arrangements that contain a performance obligation.

Amendments to PFRS 4, *Applying PFRS 9 'Financial Instruments' with PFRS 4 'Insurance Contracts'*

The amendments provide two options for entities that issue insurance contracts within the scope of PFRS 4, *Insurance Contracts*:

- an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets; this is the so-called overlay approach; and

- an optional temporary exemption from applying PFRS 9 for entities whose predominant activity is issuing contracts within the scope of PFRS 4; this is the so-called deferral approach.

The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied.

The Group assessed that the amendments have no significant impact on the Group's consolidated financial statements, as the Group does not issue insurance contracts within the scope of PFRS 4.

PFRS 9, *Financial Instruments (2014)*

The Group has applied PFRS 9, *Financial Instruments* (2014) and the related consequential amendments to other PFRS Standards.

The Group has elected to apply the modified retrospective approach. Consequently, the Group did not restate comparatives in respect of the classification and measurement of financial instruments, impairment

of financial assets and general hedge accounting.

Additionally, the Group adopted consequential amendments to PFRS 7, *Financial Instruments: Disclosures* that were applied to the disclosures for 2018.

PFRS 9 introduced new requirements for:

a) classification and measurement of financial assets and financial liabilities;

b) impairment of financial assets; and

c) general hedge accounting.

*(a) Classification and measurement of financial assets and financial liabilities*

All recognized financial assets that are within the scope of PFRS 9 are required to be measured subsequently at amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at amortized cost;

- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income (FVTOCI); or

- all other debt investments and equity investments are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Group may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognized by an acquirer in a business combination in other comprehensive income; and

- the Group may irrevocably designate a debt investment that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

This standard also contains requirements for the classification and measurement of financial liabilities and derecognition requirements. Specifically, PFRS 9 requires that changes in the fair value of the financial liability attributable to changes in the credit risk of that liability be presented in other comprehensive income (OCI), unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss, but are instead transferred to retained earnings when the financial liability is derecognized.

The Group assessed that this phase of PFRS 9 have no impact on the Group's classification and measurement of the financial assets and liabilities as the Group measured and classified its financial instruments at amortized cost.

Loans as well as trade receivables, are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Thus, the Group expects that these financial instruments will continuously be measured at amortized cost under PFRS 9. In addition, the Group analyzes the contractual cash flow characteristics of those instruments in detail before concluding

whether all those instruments meet the criteria for amortized cost measurement under PFRS 9.

*(b) Impairment of financial assets*

The impairment model under this standard reflects expected credit losses (ECL), as opposed to incurred credit losses under PAS 39. Under the impairment approach of this standard, it is no longer necessary for a credit event to have occurred before credit losses are recognized. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses should be updated at each reporting date to reflect changes in credit risk since initial recognition.

In particular, PFRS 9 requires the Group to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Group is required to measure the loss allowance for that financial instrument at an amount equal to 12-months ECL. PFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances.

The Group assessed that the application of PFRS 9 have an impact on the Group's consolidated financial statements after applying the modified retrospective approach. The cumulative effect of adopting PFRS 9 is recognized in equity as an adjustment to the opening balance of retained earnings for the current period.

The Group classified their trade receivables into modern trade (MT), general trade (GT), and other trade receivables. MT and GT are assessed to be fully collectible as these are coming from reputable companies and which are backed up by bank guarantees while other trade receivables are categorized as unsupported by a strong credit standing. The Group believed that these other trade receivables which are over 120-day past due are assessed to have a possible expected credit loss in consideration of the forward-looking elements. Consequently, the Group assessed that there is an expected credit loss on the time value of money of other trade receivables after applying the market interest and inflation rate.

*(c) General hedge accounting*

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about the Group's risk management activities have also been introduced.

The adoption of the Standard did not have an impact on the Group's consolidated financial statements as it has no financial instruments accounted for as a general hedge accounting.

PFRS 15, *Revenue from Contracts with Customers*

The standard combines, enhances, and replaces specific guidance on recognizing revenue with a single standard. An entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

It defines a new five-step model to recognize revenue from customer contracts.

- Identify the contract(s) with a customer.

- Identify the performance obligations in the contract.
- Determine the transaction price.
- Allocate the transaction price to the performance obligations in the contract.
- Recognize revenue when (or as) the entity satisfies a performance obligation.

Application of this guidance will depend on the facts and circumstances present in a contract with a customer and will require the exercise of judgment.

Amendments to PFRS 15, *Clarifications to PFRS 15*

The amendments in the standard addresses three topics namely identifying performance obligations, principal versus agent considerations, and licensing and provide some transition relief for modified contracts and completed contracts.

- Added a clarification that the objective of the assessment of a promise to transfer goods or services to a customer is to determine whether the nature of the promise, within the context of the contract, is to transfer each of those goods or services individually or, instead, to transfer a combined item or items to which the promised goods or services are inputs.
- Clarification on how to assess control in in determining whether a party providing goods or services is a principal or an agent.
- Clarification on when an entity's activities significantly affect the intellectual property by amending the application guidance.

The adoption of the amendments did not have a significant impact on the Group's consolidated financial statements as the Group has only one distinct performance obligation per contract and is satisfied at a point in time, which is to deliver the promised manufactured goods. Other than that, the Group has taken into account some variable considerations, and considerations payable to a customer which are not distinct to the performance obligations as part of estimating the transaction price.

PIC Q&A No. 2016-04, *Application of PFRS 15 "Revenue from Contracts with Customers" on Sale of Residential Properties under Pre-completion Contracts*

This interpretation applies to the accounting for revenue from the sale of a residential property unit under pre-completion stage (i.e., construction is on-going or has not yet commenced) by a real estate developer that enters into a Contract to Sell (CTS) with a buyer, and the developer has determined that the contract is within the scope of PFRS 15 by satisfying all the criteria in paragraph 9 of PFRS 15.

This interpretation does not deal with the accounting for other aspects of real estate sales such as variable considerations, financing components, commissions and other contract costs, timing of sales of completed properties, etc.

The interpretation did not have an impact on the Group's consolidated financial statements as the Group does not have revenue from contracts with customers on sale of residential properties.

*Annual Improvements to PFRSs 2014-2016 Cycle*

The annual improvements address the following issues:

Amendments to PFRS 1, *First-time Adoption of International Financial Reporting Standards*

The amendments include the deletion of short-term exemptions stated in the appendix of PFRS 1, because they have now served their intended purpose.

Amendments to PAS 28, *Investments in Associates and Joint Ventures*

The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

The amendments did not have an impact on the Group's consolidated financial statements as the Group is neither a first time adopter of PFRS nor a venture capital organization. Furthermore, the Group does not have any associate or joint venture that is an investment entity.

Amendments to PAS 40 Investment Property, *Transfers of Investment Property*

The amendments in Transfers of Investment Property (Amendments to PAS 40) are:

- Stating that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.
- The list of evidence in paragraph 57(a) – (d) was designated as non-exhaustive list of examples instead of the previous exhaustive list.

The Group assessed that the amendments did not have a significant impact on the Group's consolidated financial statements as the Group has no investment property.

Philippine Interpretation IFRIC 22, *Foreign Currency Transactions and Advance Consideration*

The interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. It does not apply when an entity measures the related asset, expense or income on initial recognition at the fair value of the consideration received or paid at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability.

The interpretation did not have a significant impact on the Group's consolidated financial statements as the Group already accounts for the transactions involving the payment or receipt of advance consideration in a foreign currency in a way that is consistent with the interpretation.

**New Accounting Standards Effective after the Reporting Period Ended December 31, 2018**

PFRS 16, *Leases*

This standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less (i.e. short-term lease) or the underlying asset has a low value (i.e. lease of low-value assets).

A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the identified asset's use and to obtain substantially all the economic benefits from that use. An asset is typically identified by being explicitly specified in a contract, but an asset can also be identified by being implicitly specified at the time it is made available for use by the customer.

Lessors continue to classify leases as operating or finance, with PFRS 16's approach to lessor accounting substantially unchanged from its predecessor, PAS 17.

The standard is effective for annual reporting periods beginning on or after January 1, 2019.

The Group assessed that the adoption of the new standard will result in the recognition of right-of-use of asset and lease liability and additional disclosure on the Group's consolidated financial statements.

Amendment to PFRS 9, *Prepayment Features with Negative Compensation*

The amendments include:

*Changes regarding symmetric prepayment options*

Under the amendments, the sign of the prepayment amount is not relevant, i.e. depending on the interest rate prevailing at the time of termination; a payment may also be made in favor of the contracting party effecting the early repayment. The calculation of this compensation payment must be the same for both the case of an early repayment penalty and the case of an early repayment gain.

*Clarification regarding the modification of financial liabilities*

The amendments contain a clarification regarding the accounting for a modification or exchange of a financial liability measured at amortized cost that does not result in the derecognition of the financial liability. An entity recognizes any adjustment to the amortized cost of the financial liability arising from a modification or exchange in profit or loss at the date of the modification or exchange. A retrospective change of the accounting treatment may therefore become necessary if in the past the effective interest rate was adjusted and not the amortized cost amount.

The amendments are effective for periods beginning on or after January 1, 2019. Earlier application is permitted.

The Group assessed that the amendment will not have an impact on the Group's consolidated financial statements, as the Group has no prepayment features with negative compensation.

Amendment to PAS 28, *Long-term Interests in Associates and Joint Ventures*

The amendment clarify that an entity applies PFRS 9 including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

The amendment is effective for periods beginning on or after January 1, 2019. Earlier application is permitted.

The Group assessed that the amendment will not have an impact on the Group's consolidated financial statements, as the Group has no long-term interest in associates and joint ventures.

**New Accounting Standards Effective after the Reporting Period Ended December 31, 2018 - Adopted by FRSC but pending publication in the Official Gazette by the Board of Accountancy**

The Group will adopt the following once these become effective.

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

This interpretation applies in determining the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under PAS 12, *Income Taxes.*

An entity has to consider whether it is probable that the relevant authority will accept each tax treatment,

or group of tax treatments, that it used or plans to use in its income tax filing.

- If the entity concludes that it is probable that a particular tax treatment is accepted, the entity has to determine taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment included in its income tax filings.

- If the entity concludes that it is not probable that a particular tax treatment is accepted, the entity has to use the most likely amount or the expected value of the tax treatment when determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates. The decision should be based on which method provides better predictions of the resolution of the uncertainty.

An entity has to reassess its judgements and estimates if facts and circumstances change.

The interpretation is effective for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

The Group is still evaluating the impact of the interpretation on the Group's determination of taxable profit/loss, unused tax loses, unused tax credit and tax rate.

Amendments to PAS 19, *Plan Amendment, Curtailment or Settlement*

The amendments in Plan Amendment, Curtailment or Settlement are:

- If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement.

- In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.

The amendments are effective for periods beginning on or after January 1, 2019. Earlier application is permitted.

The Group is still evaluating the impact of these amendments.
*Annual Improvements to PFRSs 2015-2017 Cycle*

*Amendments to PFRS 3 and PFRS 11, Previously held interest in a joint operation*

The amendments to PFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to PFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

The Group assessed that the amendments will not have an impact on the Group's consolidated financial statements, as the Group has no previously held interest in a joint operation.

Amendments to PAS 12, *Income tax consequences of payments on financial instruments classified as equity*

The amendments clarify that the requirements in the former paragraph 52B (to recognize the income tax consequences of dividends where the transactions or events that generated distributable profits are recognized) apply to all income tax consequences of dividends by moving the paragraph away from paragraph 52A that only deals with situations where there are different tax rates for distributed and undistributed profits.

The Group assessed that the amendments will not have an impact on the Group's consolidated financial statements, as the Group has no income tax consequences of payments on financial instruments classified as equity.

Amendments to PAS 23, *Borrowing costs eligible for capitalization*

The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows *generally* when calculating the capitalization rate on general borrowings.

The amendments are effective for periods beginning on or after January 1, 2019. Earlier application is permitted.

The Group is still evaluating the impact of these amendments.

PFRS 17, *Insurance Contracts*

PFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of PFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows.

The key principles in PFRS 17 are that an entity:

- identifies as insurance contracts those contracts under which the entity accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder;
- separates specified embedded derivatives, distinct investment components and distinct performance obligations from the insurance contracts;
- divides the contracts into groups that it will recognize and measure;
- recognizes and measures groups of insurance contracts at:

i. a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset)

ii. an amount representing the unearned profit in the group of contracts (the contractual service margin);

- recognizes the profit from a group of insurance contracts over the period the entity provides insurance cover, and as the entity is released from risk. If a group of contracts is or becomes loss-making, an entity recognizes the loss immediately;
- presents separately insurance revenue (that excludes the receipt of any investment component), insurance service expenses (that excludes the repayment of any investment components) and insurance finance income or expenses; and
- discloses information to enable users of financial statements to assess the effect that contracts within the scope of PFRS 17 have on the financial position, financial performance and cash flows of an entity.

PFRS 17 includes an optional simplified measurement approach, or premium allocation approach, for simpler insurance contracts.

The standard is effective for periods beginning on or after January 1, 2021. Earlier application is permitted.

The Group does not anticipate that the new standard will have a significant impact on the Group's consolidated financial statements as the Group does not have insurance contracts.

Amendments to PAS 1 and PAS 8, *Definition of Material*

The amendments relate to a revised definition of 'material':

*“Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.”*

Three new aspects of the new definition include (i) obscuring; (ii) could reasonably be expected to influence; and (iii) primary users.

The amendments stress especially five ways material information can be obscured:

- if the language regarding a material item, transaction or other event is vague or unclear;
- if information regarding a material item, transaction or other event is scattered in different places in the financial statements;
- if dissimilar items, transactions or other events are inappropriately aggregated;
- if similar items, transactions or other events are inappropriately disaggregated; and
- if material information is hidden by immaterial information to the extent that it becomes unclear what information is material.

The amendments are effective for periods beginning on or after January 1, 2020. Earlier application is permitted.

The Group is still evaluating the impact of the new amendments.

Amendments to PFRS 3, *Definition of Business*

The amendments are to:

- clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;
- narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs;
- add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;
- remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and
- add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period.

The Group is still evaluating the impact of the new amendments.

## SIGNIFICANT ACCOUNTING POLICIES

### Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Parent Company and all subsidiaries it controls. Control is achieved when the Parent Company has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power to affect its returns.

The Parent Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of these three elements of control: a) has power over the investee; b) exposure or rights, to variable returns from its involvement with the investee; or the ability to use its power to affect its returns.

The Parent Company considers all relevant facts and circumstances in assessing whether or not the Parent Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Parent Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Parent Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Parent Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Parent Company obtains control over the subsidiary and ceases when the Parent Company loses control of the subsidiary.

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. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. Unrealized gains and losses are eliminated.

Changes in the Parent Company's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Parent Company.

When the Parent Company loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable PFRS). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under PFRS 9.

**Business Combination**

Common control business combinations are excluded from the scope of PFRS 3, *Business Combinations*. However, there are no specific rules under existing PFRS which prescribe how such transactions shall be accounted for. In August 2011, the PIC issued Q&A No. 2011-02, PFRS 3.2, *Common Control Business Combinations*, to provide guidance in accounting for common control business combinations in order to minimize diversity in the current practices until further guidance is provided by the International Accounting Standard Board (IASB).

The consensus in Q&A No. 2011-02 provides that common control business combinations shall be accounted for using either (a) the pooling of interests method, or (b) the acquisition method in accordance with PFRS 3. However, where the acquisition method of accounting is selected, the transaction must have commercial substance from the perspective of the reporting entity.

In accordance with PIC Q&A No. 2011-02, the Group's acquisitions of businesses under common control are accounted for using either the acquisition method or the pooling of interest method, depending on the specific circumstances of the acquisition.

*Acquisition method*

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interest issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with PAS 12, *Income Taxes* and PAS 19, *Employee Benefits*, respectively;
- liabilities and equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangement of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with PFRS 2, *Share-based Payment,* at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with PFRS 5, *Non-current assets Held for Sale and Discontinued Operations,* are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any) is recognized immediately in profit or loss as bargain purchase gain.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with

corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period (which cannot exceed one year from acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for the changes in fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with PFRS 9, *Financial Instruments: Recognition and Measurement*, or PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

*Pooling of interest method*

Common control business combinations are accounted for using the "pooling of interests method".

The pooling of interests method is generally considered to involve the following:

- The assets and liabilities of the combining entities are reflected in the consolidated financial statements at their carrying amounts. No adjustments are made to reflect fair values, or recognize any new assets or liabilities, at the date of the combination that otherwise would have been done under the acquisition method. The only adjustments that are made are those adjustments 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 or transferred and the equity 'acquired' is reflected within equity;
- The consolidated income statement 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.

The Group applied the pooling of interest method when it acquired GTC and SMDC as these companies remained to be wholly owned subsidiaries at the time of the acquisition. In 2016, the Group applied the same method in accounting for its acquisition of CRL as there is no commercial substance relating to the acquisition.

**Goodwill**

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of business combination over the interest in the net fair value of the acquirer's identifiable assets, liabilities and contingent liabilities. Subsequently, goodwill arising on an acquisition of a business is measured at cost less any accumulated impairment losses.

Goodwill is not amortized but is reviewed for impairment at least annually. For purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (CGU) that are expected to benefit from the synergies of the combination.

A CGU to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss in the consolidated statements of comprehensive income. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant CGU, the amount attributable to goodwill is included in the determination of the profit or loss on disposal.

**Accounting Policies applied after January 1, 2018 for financial instruments**

**Financial Instruments**

Financial assets and financial liabilities are recognized in the Group's consolidated financial statements when the Group becomes a party to the contractual provisions of the instrument.

Initial recognition

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

**Financial Assets**

Classification and subsequent measurement

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period established by regulation or convention in the marketplace.

All recognized financial assets are subsequently measured in their entirety at either amortized cost or fair value, depending on the classification of the financial assets.

Financial assets are subsequently measured at amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets, as follows:

- financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortized cost;
- financial assets that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at fair value through other comprehensive income (FVTOCI); and
- all other financial assets managed on their fair value basis and equity instruments are subsequently measured at fair value through profit or loss (FVTPL).

Financial assets are subsequently measured at amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets, as financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortized cost.

*Amortized cost and effective interest method*

The effective interest method is a method of calculating the amortized cost of a financial asset and of

allocating interest income over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. On the other hand, the gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss allowance.

Interest income is recognized using the effective interest method for financial assets at amortized cost.

*Foreign exchange gains and losses*

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period.

For financial assets measured at amortized cost, exchange differences are recognized in profit or loss.

*Impairment of financial assets*

The Group recognizes a loss allowance for expected credit losses (ECL) on its financial assets at amortized cost.

The ECL reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and information about past events, current conditions and forecasts of future economic conditions.

The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group recognizes lifetime ECL for trade receivables. The ECL on trade receivables are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12 month ECL. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was

anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognized. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organizations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk for a particular financial instrument (e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortized cost);

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause

- a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor;

- significant increases in credit risk on other financial instruments of the same debtor; or

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 120 days past due, since the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date.

A financial instrument is determined to have low credit risk if:

- The financial instrument has a low risk of default;

- The debtor has a strong capacity to meet its contractual cash flow obligations in the near term; and

- Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

*Default*

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than one year past due, since the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

*Credit-impaired financial assets*

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence of credit-impairment includes observable data about the following events:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for a security because of financial difficulties; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Group assesses whether financial assets measured at amortized cost are credit-impaired at each reporting date. To assess if the financial instruments measured at amortized cost are credit-impaired, the Group considers the credit standing and the ability of the counterparty to meet its contractual obligations.

*Write-off*

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery or when the Group has no reasonable expectations of recovering the financial asset either in its entirety or a portion of it. This is the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event.

*Measurement and recognition of expected credit losses*

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the PD and loss given default is based on historical data adjusted by forward-looking information.

*Presentation of allowance for ECL in the statement of financial position*

Loss allowances for ECL are presented in the statements of financial position as a deduction from the gross carrying amount of the assets.

*Derecognition*

The Group derecognizes a financial asset only when the contractual rights to the asset's cash flows expire or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay.

If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

**Financial Liabilities and Equity Instruments**

*Classification as debt or equity*

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

<u>Financial liabilities</u>

All financial liabilities are measured subsequently at amortized cost using the effective interest method or at FVTPL. Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

*Financial liabilities measured subsequently at amortized cost*

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as at FVTPL, are measured subsequently at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortized cost of a financial liability.

*Foreign exchange gains and losses*

For financial liabilities that are denominated in a foreign currency and are measured at amortized cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortized cost of the instruments.

The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period.

*Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount reported in the statements of financial position

when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

A right to offset must be available today rather than being contingent on a future event and must be exercisable by any of the counterparties, both in the normal course of business and in the event of default, insolvency or bankruptcy.

*Derecognition of financial liabilities*

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by Group are recognized at the proceeds received, net of direct issue costs.

*Share capital*

Share capital are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds, net of tax.

*Share premium*

Share premium represents the excess over the par-value received on subscriptions for the Group's shares which is represented in equity. When the shares are sold at a premium, the difference between the proceeds and the par value is credited to the share premium.

Direct costs incurred related to equity issuance are chargeable to share premium account. If additional paid-in capital is not sufficient, the excess is charged against retained earnings.

*Currency translation adjustment*

Currency translation adjustment represents the exchange differences resulting from translating the financial position and results of operations of GTC, CPNA, CIC, CRL and CST, whose functional currencies differ from the functional currency of the Group.

*Retained earnings*

Retained earnings represent accumulated profits and losses attributable to equity holders of the Group after deducting dividends declared. Retained earnings may also include the effect of changes in accounting policy as may be required by the Standard's transitional provisions.

## Inventories

Inventories are initially measured at cost. Subsequently, inventories are stated at the lower of cost and net realizable value. The costs of inventories are calculated using the first-in, first-out method. The costs of inventories are calculated as follows:

| | |
|---|---|
| Raw materials | Moving average |
| Work-in-process | Weighted average |
| Finished goods | Weighted average |
| Finished goods (CPAVI) | Moving average |

Net realizable value represents the estimated selling price less all estimated costs of completion and costs necessary to make the sale.

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

Provision for inventory losses is established for slow moving, obsolete, defective and damaged inventories based on physical inspection and management evaluation. Inventories and its related provision for impairment are written off when the Group has determined that the related inventory is already obsolete and damaged. Write-offs represent the release of previously recorded provision from the allowance account and credited to the related inventory account following the disposal of the inventories. Destruction of the obsolete and damaged inventories is made in the presence of regulatory agencies.

Reversals of previously recorded impairment provisions are credited in the statements of comprehensive income based on the result of Management's current statement, considering available facts and circumstances, including but not limited to net realizable value at the time of disposal.

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

Spare parts with useful lives of one year or less are classified as inventories and recognized as expense as they are consumed.

## Prepayments

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

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

## Biological Assets

Biological assets or agricultural produce are recognized only when the Group controls the assets as a result of past events, it is probable that future economic benefits associated with the assets will flow to the Group and the cost of the assets can be measured reliably.

Biological assets are required to be measured on initial recognition and at the end of each reporting period at fair value less costs to sell, unless fair value cannot be measured reliably. Accordingly, the Management shall exercise its judgment in determining the best estimate of fair value.

After exerting its best effort in determining the fair value of the Group's biological assets, Management believes that the fair value of its biological assets cannot be measured reliably since the market determined prices or values are not available and other methods of reasonably estimating fair value are determined to be clearly unreliable. Thus, the Group measures biological assets at its cost less any accumulated impairment losses.

There is no recognized depreciation on biological assets given its nature which is to grow and use it as part of its production.

Biological assets of the Group are classified as consumable biological assets which include fish in farms. The Group manages the growth of fish which will subsequently be used in production upon harvest.

Biological assets are recognized as expense when consumed.

**Property, Plant and Equipment**

Property, plant and equipment are initially measured at cost. The cost of an item of property, plant and equipment comprises:

- its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and
- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by Management.

The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located.

Major spare parts qualify as property, plant and equipment when the Group expects to use them for more than one year. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

At the end of each reporting period, item of property, plant and equipment measured are carried at cost less any subsequent accumulated depreciation and impairment losses.

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

Depreciation is computed on the straight-line method, other than construction in progress, based on the estimated useful lives of the assets as follows:

| | |
|---|---|
| Buildings | 15 – 40 years |
| Building improvements | 5 - 15 years |
| Plant, machinery and equipment | 2 - 20 years |
| Transportation and delivery equipment | 3 - 10 years |
| Office furniture, fixtures and equipment | 2 - 5 years |
| Laboratory tools and equipment | 1 - 15 years |
| Land improvements | 5 - 15 years |

Properties in the course of construction for production, rental, administrative purposes or for purposes not yet determined, are carried at cost less any recognized impairment loss. Depreciation commences at the time the assets are ready for their intended use.

Leasehold improvements are depreciated over the improvements useful life of five years or when shorter, the term of the relevant lease.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

Spare parts and properties in the course of construction for production or for purposes not yet determined are carried at cost, less any recognized impairment loss. Depreciation of these assets, on the same basis as other property assets, commences at the time the assets are ready for their intended use.

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

**Intangible Assets**

Intangible assets are initially measured at cost. Subsequent to initial recognition, intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over the estimated useful lives. The estimated useful life and the amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets, such as trademarks, with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date. Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in profit or loss when the asset is derecognized.

**Impairment of Tangible and Intangible Assets**

At the end of each reporting period, the Group assesses whether there is any indication that any of its tangible and intangible assets may have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs. When reasonable and consistent basis of allocation can be identified, assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives, such as trademarks, and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized as an expense in profit or loss. Impairment losses recognized in respect of CGUs are allocated to the assets in the unit on a pro-rata basis.

Impairment losses recognized in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. A reversal of an impairment loss is recognized as income.

**Provisions**

Provisions are recognized when the Group has a present obligation, either legal or constructive, as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized is the best estimate of the consideration required to settle the present obligation at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation; its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

If it is no longer probable that a transfer of economic benefits will be required to settle the obligation, the provision should be reversed.

**Share-based Payments**

Equity-settled share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the

fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments to employees is recognized as expense on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

**Employee Benefits**

Short-term benefits

The Group recognizes a liability net of amounts already paid and an expense for services rendered by employees during the accounting period that are expected to be settled wholly before 12 months after the end of the reporting period. A liability is also recognized for the amount expected to be paid under short-term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

Post-employment benefits

*Defined benefit plan*

The Group classifies its retirement benefit as defined benefit plans. Under the defined benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the consolidated statements of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

Retirement benefit costs are categorized as follows:

- Service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- Net interest expense or income; and
- Remeasurement.

The Group presents the first two components of retirement benefit costs in profit or loss.

The retirement benefit obligation recognized in the consolidated statements of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans. For defined benefit retirement plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period.

**Revenue Recognition**

The Group recognizes revenue from the sale of its manufactured goods.

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognizes revenue when it transfers control of a product to a customer. The Group recognizes revenue when it transfers control of a product to a customer.

*Sale of goods*

The Group contracts to sells goods to the wholesale market and retailers. It identifies each party's rights and payment terms regarding goods to be transferred.

For sales of goods to the wholesale market and retailers, revenue is recognized when control of the goods has transferred, being when the goods have been delivered to the wholesalers' and retailers' specific location. Following delivery, the wholesaler and retailer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when on selling the goods and bears the risks of obsolescence and loss in relation to the goods. A receivable is recognized by the Group when the goods are delivered to the wholesaler and retailer as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

*Transaction price*

The Group considers the terms of the contract and its customary business practices to determine the transaction price. The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods to a customer, excluding amounts collected on behalf of third parties. The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both.

The transaction price is also adjusted for any consideration payable to the customer. Consideration payable to a customer includes cash amounts that the Group pays, or expects to pay, to the customer (or to other parties that purchase the Group's goods from the customer). Consideration payable to a customer also includes credit or other items that can be applied against amounts owed to the Group (or to other parties that purchase the Group's goods or services from the customer).

*Variable consideration*

The amount of consideration can vary because of discounts, rebates, refunds, credits, incentives, penalties or other similar items. The Group estimated the amount of consideration to which it will be entitled to in exchange for transferring the promised goods to a customer.

The Group includes in the transaction price some or all of an amount of variable consideration estimated only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

The Group estimated the value of the variable consideration by obtaining the most likely amount in a range of possible consideration amounts.

The Group includes in the transaction price some or all of an amount of variable consideration estimated only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

In assessing whether it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur once the uncertainty related to the variable consideration is subsequently

resolved, the Group considers both the likelihood and the magnitude of the revenue reversal. Factors that could increase the likelihood or the magnitude of a revenue reversal include, but are not limited to, any of the following:

- The amount of consideration is highly susceptible to factors outside the Group's influence. Those factors may include volatility in a market, the judgment or actions of third parties, weather conditions and a high risk of obsolescence of the promised goods;
- The uncertainty about the amount of consideration is not expected to be resolved for a long period of time;
- The Group's experience (or other evidence) with similar types of contracts is limited, or that experience (or other evidence) has limited predictive value;
- The Group has a practice of either offering a broad range of price concessions or changing the payment terms and conditions of similar contracts in similar circumstances; or
- The contract has a large number and broad range of possible consideration amounts.

Service income

Service income is recognized in point in time in which services are rendered.

The service income pertains to the management fees.

Interest income

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

Dividend income

Dividend income from investments is recognized when the shareholders' rights to receive payment have been established, provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably.

Rental income

Revenue recognition for rental income is disclosed in the Group policy for leases.

Commission income

Commission income is recognized when earned, based on the terms of the agreement.

The commission income pertains to the co-packing services rendered by the Group to one of its suppliers.

Other income

Other income is income generated outside the normal course of business and is recognized when it is probable that the economic benefits will flow to the Group and it can be measured reliably.

**Expense Recognition**

Expenses are recognized in profit or loss when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Expenses are recognized in profit or loss: on the basis of a direct association between the costs incurred and the earning of specific items of income;

on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined; or immediately when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the consolidated statements of financial position as an asset.

Expenses in the consolidated statements of comprehensive income are presented using the function of expense method. Costs of sales are expenses incurred that are associated with the goods sold and includes raw materials used, direct labor and manufacturing overhead. Operating expenses are costs attributable to administrative, marketing, selling and other business activities of the Group.

**Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

*Operating lease*

Rental income from operating leases is recognized as income on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Initial direct costs incurred by Group in negotiating and arranging an operating lease is added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income.

The Group as lessee

*Finance lease*

Assets held under finance leases are recognized as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statements of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognized as expense in the period in which they are incurred.

*Operating lease*

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

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability.

The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except when another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

**Foreign Currency**

Foreign currency transactions

Transactions in currencies other than functional currency of the Group are recorded at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at the end of the reporting period.

Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date the fair value was determined. Gains and losses arising on retranslation are included in profit or loss for the year, except for exchange differences arising on non-monetary assets and liabilities when the gains and losses of such non-monetary items are recognized directly in equity. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for:

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as adjustments to interest costs on those foreign currency borrowings.
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks.
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

Foreign operations

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into Philippine Peso using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (and attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Group are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that includes a foreign operation that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to

non-controlling interests and are not recognized in profit or loss. For all other partial disposals (i.e., partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising from that transaction are recognized in other comprehensive income.

Translation to foreign currency

The separate financial statements of GTC, CPNA, CIC, CRL and CST whose functional currencies differ from the functional currency of the Group are translated to Philippine peso using the prevailing current exchange rate for the statements of the financial position accounts, except those which are translated at historical costs, and average rate during the period for the statements of comprehensive income accounts. Any resulting difference from the translation is charged to currency translation adjustments in OCI.

**Related Party Transactions**

A related party transaction is a transfer of resources, services or obligations between the Group and a related party, regardless of whether a price is charged.

Parties are considered related if one party has control, joint control, or significant influence over the other party in making financial and operating decisions. An entity that is a post-employment benefit plan for the employees of the Group and the key management personnel of the Group are also considered to be related parties.

Upon consolidation, significant intra-group balances are eliminated to reflect the Group's consolidated financial position and performance as a single entity.

**Taxation**

Income tax expense represents the sum of current tax expense and deferred tax.

Current tax

The current tax expense is based on taxable profit for the period. Taxable profit differs from net profit as reported in the consolidated statements of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's current tax expense is calculated using 30% regular corporate income tax (RCIT) rate or 2% minimum corporate income tax (MCIT) rate, whichever is higher. CPSI and CPFPVI use Optional Standard Deduction (OSD), while other subsidiaries use itemized deductions in the computation of their respective taxable income.

AWI registered its Cold Storage Facilities with Board of Investments (BOI) for Income Tax Holiday (ITH) provided under Article 39(a) of Executive Order No. 226, otherwise known as the Omnibus Investments Code of 1987, as amended by R.A 7918. AWI is entitled for ITH from March 1, 2016 to February 28, 2020. Other income that arises outside from the registered activities of the Company and local services in excess of 30% is subject to the statutory rate of 30%.

CPAVI is entitled to corporate income tax holiday (ITH) for four years, which can be extended for another year subject to condition that the Group shall undertake CSR activities and must be completed on the actual availment of the bonus year. The Group's liability for current tax is calculated using a 0% tax rate for BOI registered activities including sale to domestic market as authorized by BOI and 30% tax rate for

non-registered activities.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences, while deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries, except when the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year

Current and deferred taxes are recognized as an expense or income in profit or loss, except when they relate to items that are recognized outside profit or loss, whether in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized outside profit or loss. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

**Earnings per Share**

The Group computes its basic earnings per share by dividing profit for the period attributable to ordinary equity holders of the Parent Company by the weighted average number of common shares outstanding during the period.

For the purpose of calculating diluted earnings per share, profit for the period attributable to ordinary equity holders of the Parent Company and the weighted average number of shares outstanding are adjusted for the effects of dilutive potential ordinary shares.

**Events after the Reporting Period**

The Group identifies events after the end of each reporting period as those events, both favorable and unfavorable, that occur between the end of the reporting period and the date when the consolidated financial statements are authorized for issue.
The consolidated financial statements of the Group are adjusted to reflect those events that provide evidence of conditions that existed at the end of the reporting period. Non-adjusting events after the end of the reporting period are disclosed in the notes to the consolidated financial statements when material.

**Segment Reporting**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's Chief Operating Decision Maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The Group reports separately, information about an operating segment that meets any of the following quantitative thresholds:

- the absolute amount of its reported profit or loss is 10% or more of the greater, in absolute amount, of the combined reported profit of all operating segments that did not report a loss and the combined reported loss of all operating segments that reported a loss; and
- its assets are 10% or more of the combined assets of all operating segments.

Operating segments that do not meet any of the quantitative thresholds may be considered reportable, and separately disclosed, if Management believes that information about the segment would be useful to users of the consolidated financial statements.

For Management purposes, the Group is currently organized into seven business segments namely: Canned and Processed Fish, Canned Meat, Milk, Tuna Export, Coco Water, Packaging and Corporate. These divisions are the basis on which the Group reports its primary segment information.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

## 3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, Management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on the historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

**Critical Judgments in Applying Accounting Policies**

The following are the critical judgments, apart from those involving estimations, that Management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Business model assessment

Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgment reflecting all relevant evidence including how the performance of the assets are evaluated and their

performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Group monitors financial assets measured at amortized cost that are derecognized prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

The Group's financial assets only pertain to cash and cash equivalents, trade and other receivables, due from related parties, security deposits, and deposit on utilities. Based on the evaluation of the Management, such financial assets are only held within a business model whose objective is to collect contractual cash flows which are SPPI on the principal amount outstanding. Hence, the Group's financial assets are classified as amortized cost.

Determining the timing of satisfaction of performance obligations

In making its judgment, the Group considered the detailed criteria for the recognition of revenue from the sale of goods, set out in PFRS 15 and, in particular, had transferred control of the goods to the customer. Revenue is recognized when control of goods have been transferred to the customer, at a point in time, being when the goods have been delivered/shipped to the customer's specific location (delivery).

The Group is satisfied that control of goods have been transferred and that recognition of the revenue in the current year is appropriate.

Determination of functional and presentation currency

Based on the economic substance of the underlying circumstances relevant to the Group, the functional currency of the Group has been determined to be Philippine Peso. The Philippine Peso is the currency of the primary economic environment in which the Group operates. It is the currency of that mainly influences the Group in determining the costs and the selling price of its inventories. It is the currency in which the Group measures its performance and reports its results.

The results of operations and financial position of GTC and CPNA, which are measured using US Dollar, and financial position of CIC, CST and CRL, which are measured using Chinese Yuan, were translated into Philippine Peso using the accounting policies in Note 5.

Leases

The evaluation of whether an arrangement contains a lease is based on its substance. An arrangement is, or contains, a lease when the fulfillment of the arrangement depends on a specific asset or assets and the arrangement conveys the right to use the asset.

Classification of lease as finance lease

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risk and rewards of the ownership to the lessee otherwise; leases are classified as operating leases.

Judgment is used in determining whether the significant risk and rewards of ownership are transferred to the lessee. In making such judgment, the Group evaluates the terms and conditions of the lease arrangement.

The lease is classified as finance lease if the has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised; or the lease term is for the major part of the economic life of the asset; or at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; or the leased assets

are of such a specialized nature that only the Group can use them without major modifications) in which the management believes that the lessor has transferred substantially all the risk and rewards over the leased asset to the lessee. Failure to make the right judgment would directly affect the Group's assets and liabilities.

Based on the Group's evaluation, the lease arrangements entered into by Group as a lessee are accounted for as finance leases because the Group has determined that the lessor has given the Group an option to purchase the asset at a price that is sufficiently lower than the fair value at the date of the option.

Classification of lease as operating lease

Based on Group's evaluation, the lease arrangements entered into by the Group as a lessor are accounted for as operating leases because the lease arrangement will not transfer the ownership of the leased assets upon termination of the lease and it does not provide an option to purchase the asset at a price that is sufficiently lower than the fair value at the date of the option.

Discount rate used to determine the carrying amount of the Group's retirement benefit obligation

The Group's retirement benefit obligation is discounted at a rate set by reference to market yields at the end of the report period on high quality corporate bonds. Significant judgment is required when setting the criteria for bonds to be included in the population from which the yield curve is derived. The most significant criteria considered for the selection of bonds include the issue size of the corporate bonds, quality of the bonds and the identification of outliers which are excluded.

Biological assets

Biological assets are required to be measured on initial recognition and at the end of each reporting period at fair value less costs to sell, unless fair value cannot be measured reliably. Accordingly, the Management shall exercise its judgment in determining the best estimate of fair value.

After exerting its best effort in determining the fair value of the Group's biological assets, the Management believes that the fair value of its biological assets cannot be measured reliably on a continuing basis since the market determined prices or values are not available and other methods of reasonably estimating fair value are determined to be clearly unreliable. Also, the Management believes that there is no recognized depreciation on biological assets given its nature which is to grow and use it as part of its production.

Determination of control

Management exercises its judgment in determining whether the Parent Company has control or significant influence over another entity by evaluating the substance of relationship that indicates control or significant influence of the Parent Company over the entities. The recognition and measurement of the Parent Company's investments over these entities will depend on the result of the judgment made.

Acquisition of assets qualified as business combination

In applying the requirements of PFRS 3, Business Combinations, an entity or an asset being acquired has to be assessed whether it constitutes a business. The assessment requires identification of inputs and processes applied to these inputs to generate outputs or economic benefits. As discussed in Note 13, assets acquired arising from the Hunt's acquisition constitute a business and is accounted for as business combination.

The total fair values of the net identifiable assets acquired amounted to P573,547,000. This acquisition did not result in the recognition of any goodwill or gain on bargain purchase.

*Purchase price allocation in business combination*

The Group accounts for the acquired business using the acquisition method which requires extensive use of accounting judgments and estimates to allocate the purchase price to the fair market values of the identifiable assets at acquisition date. Any difference in the purchase price and the fair values of the assets acquired is recorded as either a goodwill (or subsumed in the related identifiable asset), or gain on bargain purchase in profit or loss. Thus, the numerous judgments made in estimating fair value to be assigned to the assets can materially affect the Group's financial position and performance.

**Key Sources of Estimation Uncertainty**

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

Estimating the transaction price of the performance obligation

In making its judgment, Management applied the detailed criteria for the recognition of revenue as specified in PFRS 15, specifically the discussion on the determination of a transaction price. As stated in PFRS 15, an entity shall recognize as revenue the amount of transaction price that is allocated to the performance obligation satisfied. In relation to the trade investment of the Group, variable consideration and consideration payable to a customer are particularly accounted as part of determining the transaction price for the sale of goods. Based on the nature of variable considerations, as disclosed in Note 22, the Group considered such transactions as a reduction to sales. Consideration payable transactions on the other hand were evaluated based on its nature and the specifications in the standard on whether the goods promised can be quantified as distinct or not. Transactions identified as distinct were presented under operating expenses while transactions identified as not distinct were reclassified as reduction to sales. Following the detailed quantification of the Group's trade investment transactions grouped as consideration payable, the Management are satisfied that for the transactions identified as not distinct, the customer cannot benefit from the transaction on its own and the promise to transfer goods cannot be separately identified from other premises of the contract.

Estimating useful lives of assets

The useful lives of the Group's assets with definite lives are estimated based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment 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 Group's assets.

In addition, the estimation of the useful lives is based on the Group's collective assessment of industry practice, internal technical evaluation and experience with similar assets and contractual arrangements, if applicable.

It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property, plant and equipment would increase the recognized operating expenses and decrease non-current assets.

Estimating net realizable value of inventories

The net realizable value of inventories represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. The Group determines the estimated selling price based on the recent sale transactions of similar goods with adjustments to reflect any changes in economic conditions since the date the transactions occurred. The Group records provision for excess

of cost over net realizable value of inventories. While the Group believes that the estimates are reasonable and appropriate, significant differences in the actual experience or significant changes in estimates may materially affect the profit or loss and equity.

Reversals of previously recorded impairment provisions are credited in the consolidated statements of comprehensive income based on the result of Management's current assessment, considering available facts and circumstances, including but not limited to net realizable value at the time of disposal.

Impairment of goodwill

Determining whether goodwill is impaired requires estimation of the value of CGU to which goodwill has been allocated. The value in use calculation requires the Management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

Asset impairment other than goodwill

The Group performs an impairment review when certain indicators are present.

Purchase accounting requires extensive use of accounting estimates and judgment to allocate the purchase price to the fair market values of the assets and liabilities purchased

Determining the recoverable amounts of property, plant and equipment, intangible assets and input VAT, which require the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Group to make estimates and assumptions that can materially affect the consolidated financial statements. Future events could cause the Group to conclude that property, plant and equipment, intangible assets and input VAT are impaired. Any resulting impairment loss could have a material adverse impact on the financial condition and results of operations.

The preparation of the estimated future cash flows involves significant judgment and estimations. While the Group believes that its assumptions are appropriate and reasonable, significant changes in the assumptions may materially affect the assessment of recoverable values and may lead to future additional impairment charges.

Determining the fair value of financial instruments

The Group carries some of its financial assets and financial liabilities at fair value, which requires extensive use of accounting estimates and judgment. In addition, certain liabilities acquired through debt exchange and restructuring are required to be carried at fair value at the time of the debt exchange and restructuring. While significant components of fair value measurement were determined using verifiable objective evidence, i.e., foreign exchange rates, interest rates, volatility rates, the amount of changes in fair value would differ if the Group utilized different valuation methodology. Any change in fair value of these financial assets and financial liabilities would affect profit or loss and equity.

Estimating loss allowance for expected credit losses

The Group measures expected credit losses of a financial instrument in a way that reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and information about past events, current conditions and forecasts of future economic conditions. When measuring ECL the Group uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

The Group has applied the simplified approach in PFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the expected credit losses on these items by using a provision matrix, estimated based on the market interest rate plus the inflation rate to be applied to the receivable from the customers group under "others" from over 120 days.

Estimating allowances for doubtful accounts

The Group estimates the allowance for doubtful accounts related to its receivables based on assessment of specific accounts when the Group has information that certain counterparties are unable to meet their financial obligations. In these cases, judgment used was based on the best available facts and circumstances including but not limited to, the length of relationship with the counterparty and the counterparty's current credit status based on credit reports and known market factors. The Group used judgment to record specific reserves for counterparties against amounts due to reduce the expected collectible amounts. These specific reserves are re-evaluated and adjusted as additional information received impacts the amounts estimated.

The amounts and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized. An increase in the allowance for doubtful accounts would increase the recognized operating expenses and decrease current assets.

Retirement benefit and other post-employment benefits

The determination of the retirement benefit obligation and other post-employment benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include among others, discount rates, mortality and rates of compensation increase. While the Group believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the amount of retirement benefit obligation and other post-employment benefits recognized.

Deferred tax assets

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

## 4. SEGMENT INFORMATION

For Management purposes, the Group is organized into two major business segments: branded and non-branded. These segments are the basis on which the Group reports its primary segment information to the CODM for the purposes of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 2.

## 5. CASH AND CASH EQUIVALENTS

| | Amount in Php | |
|---|---|---|
| | As of June 30, 2020 | As of December 31, 2019 |
| Cash on hand | 1,330,749 | 60,508,152 |
| Cash in bank | 2,112,529,475 | 1,504,022,718 |
| Cash equivalents | 3,386,280,157 | 43,313,185 |
| | 5,500,140,380 | 1,607,844,054 |

Cash on hand includes petty cash fund.

Cash in banks earn an average interest at rates based on daily bank deposit rates. These are unrestricted and immediately available for use in the current operations of the Group.

Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash which are subject to an insignificant risk of changes in value. The Group classifies an investment as cash equivalent if that investment has a maturity of three months or less from the date of acquisition. Cash equivalents represent short-term fund placements with local banks maturing on various dates. These placements are from excess cash and can be withdrawn anytime for operations.

## 6. TRADE AND OTHER RECEIVABLES

The Group's trade and other receivables consist of:

| | Amount in Php | |
|---|---|---|
| | As of June 30, 2020 | As of December 31, 2019 |
| Trade receivables from third parties | 7,584,226,788 | 5,985,029,736 |
| Advances to suppliers | 875,105,019 | 786,574,073 |
| Advances to officers & employees | 66,112,387 | 47,169,974 |
| Other receivables | 190,701,141 | 224,601,685 |
| | 8,716,145,335 | 7,043,375,469 |
| Less : Allowance for doubtful accounts | 48,594,242 | 42,847,339 |
| | 8,667,551,093 | 7,000,528,129 |

Trade receivables represent short-term, non-interest bearing receivables from various customers and generally have 60 day terms or less.

Advances to suppliers pertain to the Group's deposits on purchases.

## 7. INVENTORIES – net

Details of the Group's inventories are as follows:

| | Amount in Php | |
|---|---|---|
| | As of June 30, 2020 | As of December 31, 2019 |
| Finished goods | 3,230,784,995 | 5,594,397,614 |
| Raw and packaging materials | 7,713,702,586 | 5,910,396,114 |
| Work in process | 350,362,036 | 76,621,973 |
| Spare parts and supplies | 583,831,853 | 383,634,728 |
| | 11,878,681,470 | 11,965,050,429 |

No inventories are pledged as security for any liability as of June 30, 2020.

## 8. PREPAYMENTS AND OTHER CURRENT ASSETS

The account consists of:

| | Amount in Php | |
|---|---|---|
| | As of June 30, 2020 | As of December 31, 2019 |
| Tax credits | 236,099,007 | 167,851,940 |
| Input value added tax (VAT) - net | 359,054,722 | 552,373,952 |
| Prepaid insurance | 24,586,425 | 10,431,023 |
| Prepaid rent | 4,422,101 | 8,650,874 |
| Other prepayments | 54,557,792 | 90,302,145 |
| | 678,720,046 | 829,609,933 |

Tax credits include creditable withholding taxes withheld by the Group's customers and tax credit certificates (TCC) issued by the Bureau of Customs (BOC). TCCs from BOC are granted to Board of Investment (BOI) registered companies and are given for taxes and duties paid on raw materials used for the manufacture of their export products. The Group can apply its TCC against tax liabilities other than withholding tax or can be refunded as cash.

## 9. PROPERTY, PLANT AND EQUIPMENT – net

Movements in the carrying amounts of the Group's property plant and equipment are as follows:

| | Land and Land Improvements | Building and building Improvements | Plant Machinery and Equipment | Transportation and Delivery Equipment | Office Furniture, Fixtures and Equipment | EDP Equipments | Laboratory, Tools and Equipment | Construction in Progress | Total |
|---|---|---|---|---|---|---|---|---|---|
| Cost | | | | | | | | | |
| January 1, 2020 | 56,892,461 | 2,741,435,472 | 5,843,614,923 | 129,110,568 | 70,526,750 | 220,434,217 | 287,680,950 | 685,137,189 | 10,034,832,530 |
| Acquisition | 452,008 | 15,309,165 | 110,160,550 | 1,809,821 | 1,675,564 | 8,315,743 | 8,151,459 | 767,795,840 | 913,670,151 |
| Reclassification | - | 372,482,289 | 585,092,142 | - | 1,809,247 | 819,325 | 2,139,616 | (962,388,740) | (46,122) |
| Disposal | - | 156,958 | (106,152) | - | 0 | - | - | (17,613,612) | (17,562,806) |
| | 57,344,469 | 3,129,383,883 | 6,538,761,463 | 130,920,390 | 74,011,561 | 229,569,286 | 297,972,025 | 472,930,676 | 10,930,893,753 |
| Accumulated Depreciation | | | | | | | | | |
| January 1, 2020 | 48,424,825 | 738,683,147 | 2,365,377,635 | 71,847,653 | 53,104,008 | 159,866,217 | 182,985,702 | - | 3,620,289,186 |
| Depreciation and amortization | 907,114 | 74,413,868 | 262,284,529 | 10,010,002 | 4,184,832 | 12,874,254 | 20,007,299 | - | 384,681,898 |
| Reclassification | - | - | | | | - | - | - | - |
| Disposal | - | 166,074 | (107,012) | - | (0) | - | - | - | 59,061 |
| | 49,331,939 | 813,263,089 | 2,627,555,151 | 81,857,654 | 57,288,839 | 172,740,472 | 202,993,001 | - | 4,005,030,145 |
| Carrying Value | | | | | | | | | |
| As of June 30, 2020 | 8,012,530 | 2,316,120,794 | 3,911,206,312 | 49,062,735 | 16,722,721 | 56,828,814 | 94,979,024 | 472,930,676 | 6,925,863,608 |

| | Land and Land Improvements | Building and building Improvements | Plant Machinery and Equipment | Transportation and Delivery Equipment | Office Furniture, Fixtures and Equipment | EDP Equipments | Laboratory, Tools and Equipment | Construction in Progress | Total |
|---|---|---|---|---|---|---|---|---|---|
| Cost | | | | | | | | | |
| January 1, 2019 | 54,346,495 | 2,365,525,320 | 5,093,354,621 | 116,844,022 | 65,154,154 | 200,344,493 | 253,732,773 | 318,643,307 | 8,467,945,185 |
| Acquisition | 848,435 | 88,180,888 | 588,607,730 | 12,232,842 | 5,426,324 | 22,318,499 | 25,670,717 | 1,032,174,612 | 1,775,460,048 |
| Reclassification | 1,697,531 | 287,729,262 | 160,477,969 | 3,386,383 | 251,025 | (2,228,775) | 9,043,497 | (629,487,025) | (169,130,133) |
| Disposal | - | - | - | (3,352,679) | (304,754) | - | (768,151) | (35,016,987) | (39,442,570) |
| | 56,892,461 | 2,741,435,470 | 5,842,440,320 | 129,110,568 | 70,526,750 | 220,434,217 | 287,678,836 | 686,313,908 | 10,034,832,530 |
| Accumulated Depreciation | | | | | | | | | |
| January 1, 2019 | 46,958,319 | 601,035,769 | 1,991,395,727 | 55,015,129 | 45,273,296 | 130,993,251 | 139,204,276 | - | 3,009,875,765 |
| Depreciation and amortization | 1,466,506 | 128,209,810 | 470,561,038 | 20,070,633 | 8,116,054 | 28,872,967 | 43,820,284 | - | 701,117,292 |
| Reclassification | - | 14,622,387 | (96,579,130) | - | - | - | - | - | (81,956,743) |
| Disposal | - | (5,184,818) | - | (3,238,109) | (285,342) | - | (38,858) | - | (8,747,127) |
| | 48,424,825 | 738,683,147 | 2,365,377,635 | 71,847,653 | 53,104,008 | 159,866,217 | 182,985,702 | - | 3,620,289,186 |
| Carrying Value | | | | | | | | | |
| As of December 31, 2019 | 8,467,636 | 2,002,752,323 | 3,477,062,685 | 57,262,915 | 17,422,742 | 60,568,000 | 104,693,134 | 686,313,908 | 6,414,543,344 |

## 10. OTHER NON-CURRENT ASSETS

Details of the Group's other non-current assets as of June 30, 2020, and December 31, 2019, are as follows:

| | Amount in Php | |
|---|---|---|
| | As of June 30, 2020 | As of December 31, 2019 |
| Deferred Charges | 22,034,087 | 2,732,330 |
| Security deposits | 84,731,056 | 69,613,226 |
| Returnable containers | 15,635,051 | 17,447,561 |
| | 122,400,194 | 89,793,117 |

Security deposits pertain to the required amounts under the terms of the lease agreements of the Group with certain lessors.

## 11. LOANS PAYABLE

Details of the Group's loans payable as of June 30, 2020, and December 31, 2019, are as follows:

| | Amount in Php | |
|---|---|---|
| | As of June 30, 2020 | As of December 31, 2019 |
| Short term loans payable | 2,148,500,000 | 2,433,508,587 |
| Long term loans payable | 3,048,250,000 | 3,086,500,000 |
| | 5,196,750,000 | 5,520,008,587 |

## 12. TRADE AND OTHER PAYABLES

The Group's trade and other payables consist of:

| | Amount in Php | |
|---|---|---|
| | As of June 30, 2020 | As of December 31, 2019 |
| Trade payables | 4,174,304,899 | 3,687,910,262 |
| Accrued Payable | 6,016,177,857 | 2,741,844,194 |
| Non trade payables | 201,916,633 | 66,874,097 |
| Vat Output payable - net | 97,189,182 | 119,089,402 |
| Withholding taxes payable | 65,855,299 | 136,744,967 |
| Other current payables | 2,931,431 | 80,266,228 |
| | 10,558,375,302 | 6,832,729,150 |

Trade payables and non-trade payables are generally on a 30 to 90-day term.

No interest is charged on trade and non-trade payables. Accrued expenses are non-interest bearing and are normally settled within one year. The Group has financial risk management policies in place to ensure that all payables are paid within the credit period.

## 13. RELATED PARTY TRANSACTIONS

In the normal course of business, the Group transacts with companies which are considered related parties under PAS *24, Related Party Disclosures.*

The outstanding balances as of June 30, 2020, and December 31, 2019, are presented as follows:

**Consolidated**

| | Amount of Transactions during the year | | Outstanding Receivable/Payable | | Terms and Condition |
|---|---|---|---|---|---|
| Related Party Category | 2020 | 2019 | 2020 | 2019 | |
| **Ultimate Parent Company** | | | | | |
| Sale of inventories | | | | | On demand; non interest bearing; unsecured |
| Purchase of inventories | | | | | On demand; non interest bearing; unsecured |
| Service fee | | - | | | On demand; non interest bearing; unsecured |
| Cost reimbursement | **47,155** | 585,955 | **51,871** | 26,338 | On demand; non interest bearing; unsecured |
| Acquisition of investment | | | | | On demand; non interest bearing; unsecured |
| Rental expense | **22,947,750** | 45,145,379 | **(11,103,054)** | (4,442,390) | On demand; non interest bearing; unsecured |
| Sale of Fixed Assets | | | | | On demand; non interest bearing; unsecured |
| Dividends | | 438,092,637 | | | On demand; non interest bearing; unsecured |
| Miscellaneos Deposit | | | **14,204,436** | 14,024,067 | On demand; non interest bearing; unsecured |
| Cash Advance | | | | | On demand; non interest bearing; unsecured |
| **Fellow Subsidiaries** | | | | | |
| Shared services fee | **7,100,000** | 14,200,000 | | | On demand; non interest bearing; unsecured |
| Sale of inventories | **148,354,915** | 305,193,172 | **269,487,049** | 246,689,354 | On demand; non interest bearing; unsecured |
| Purchase of inventories | **31,890,958** | 125,958,838 | **(33,249,378)** | (15,264,457) | On demand; non interest bearing; unsecured |
| Service fee | **20,559,036** | 57,059,433 | | | On demand; non interest bearing; unsecured |
| Cost reimbursements | **10,187,015** | 29,886,276 | | | On demand; non interest bearing; unsecured |
| Acquisition of assets | | | | | On demand; non interest bearing; unsecured |
| Rental expense | **1,620,056** | 3,095,988 | | | On demand; non interest bearing; unsecured |
| Miscellaneos Deposit | | | **849,150** | 849,150 | On demand; non interest bearing; unsecured |
| Cash Advance | | | | | On demand; non interest bearing; unsecured |
| Rental Income | | | | | On demand; non interest bearing; unsecured |
| Royalty Fee | | | | | On demand; non interest bearing; unsecured |
| Sale of Fixed Assets | | 19,976 | | | On demand; non interest bearing; unsecured |
| **Retirement Fund** | | | | | On demand; non interest bearing; unsecured |
| Contribution from the employer | **24,306,312** | 48,612,624 | | | On demand; non interest bearing; unsecured |
| **Due from Related Parties** | | | **284,592,505** | 261,588,909 | |
| **Due to Related Parties** | | | **44,352,432** | 19,706,847 | |

## 14. SHARE CAPITAL

| | Amount in Php | |
|---|---|---|
| | As of June 30, 2020 | As of December 31, 2019 |
| Authorized Capital : | | |
| 6,000,000,000 ordinary shares at P1 par value | 6,000,000,000 | 6,000,000,000 |
| Issued and subscribed | 3,542,258,595 | 3,542,258,595 |

The Group has one class of common shares which carry one vote per share and a right to dividends.

## 15. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

| | For the Period Ended June 30, 2020 |
|---|---|
| Income for the period | 2,244,459,972 |
| Weighted average number of shares | 3,542,258,595 |
| Basic and diluted earnings per share | 0.6336 |

As of June 30, 2020, the Company has no potential dilutive shares. Accordingly, the basic earnings per share of P0.6336 is the same as the diluted earnings per share.

## 16. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The fair values of the Group's financial assets and financial liabilities are shown below:

| | As of June 30, 2020 | | As of December 31, 2019 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| **Financial Assets** | | | | |
| Cash and cash equivalents | 5,500,140,380 | 5,500,140,380 | 1,607,844,054 | 1,607,844,054 |
| Trade and Other Receivables - net | 8,667,551,093 | 8,667,551,093 | 5,942,182,397 | 5,942,182,397 |
| Due from Related Parties | 284,592,505 | 284,592,505 | 261,588,910 | 261,588,910 |
| Security deposits | 84,731,056 | 84,731,056 | 71,339,018 | 71,339,018 |
| | 14,537,015,035 | 14,537,015,035 | 7,882,954,379 | 7,882,954,379 |
| | | | 7,877,671,129 | 5,283,250 |
| **Financial Liabilities** | | | | |
| Notes Payable | 2,148,500,000 | 2,148,500,000 | 2,433,508,587 | 2,433,508,587 |
| Trade and Other Payables | 10,558,375,302 | 10,558,375,302 | 6,576,894,781 | 6,576,894,781 |
| Due to Related Parties | 44,352,432 | 44,352,432 | 19,706,847 | 19,706,847 |
| | 12,751,227,734 | 12,751,227,734 | 9,030,110,215 | 9,030,110,215 |

*Note: The amount does not include government liabilities which are not considered financial liabilities.*

Due to the short-term maturities of cash and cash equivalents, trade and other receivables, due from related parties, security deposits, trade and other payables, and due to related parties, their carrying amounts approximate their fair values.

The loans payable is determined based on the discounted cash flow analysis using effective interest rates for similar types of instruments.

**Financial Risk Management**

The Group is exposed to certain financial risks which result from both their operating and investing activities. The Group's risk management is coordinated with their Parent Company, in close cooperation with the BOD, and focuses on actively securing the Group's short-to-medium term cash flows by minimizing the exposure to financial markets.

The Group does not engage in the trading of financial assets for speculative purposes nor do they write options. The most significant financial risks to which the Group is exposed to are described below.

*Market risk*

The Group is exposed to market risk through their use of financial instruments and specifically interest risk which result from both their operating and financing activities.

*Interest rate risk*

The Group has limited exposure to changes in market interest rates through their interest-bearing loans and cash, which are subject to variable interest rates. These financial instruments have historically shown small or measured changes in interest rates.

*Credit Risk*

Credit risk is the risk that the counterparty may fail to discharge an obligation to the Group. The Group is exposed to this risk for various financial instruments arising from selling goods to customers, including related parties, providing security deposits to lessors, and placing deposits with banks.

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporate this information into their credit risk controls. Where available at a reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. The Group's policy is to deal only with creditworthy counterparties. In addition, for a significant proportion of sales, advance payments are received to mitigate credit risk.

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown in the combined statements of financial position (or in the detailed analysis provided in the notes to combined financial statements), as summarized below.

| | Amount in Php | Amount in Php |
|---|---|---|
| | As of June 30, 2020 | As of December 31, 2019 |
| Cash and cash equivalents | 5,500,140,380 | 1,607,844,054 |
| Trade and Other Receivables - net | 8,667,551,093 | 5,942,182,397 |
| Due from Related Parties | 284,592,505 | 261,588,910 |
| Security deposits | 84,731,056 | 69,613,226 |
| | 14,537,015,035 | 7,881,228,587 |

As part of the Group's policy, bank deposits are only maintained with reputable financial institutions. Cash in banks which are insured by the Philippine Deposit Insurance Corporation (PDIC) up to a maximum coverage of (P500,000) per depositor per banking institution, as provided for under Republic Act No. 9576, Charter of PDIC, are still subject to credit risk.

The Group's Management considers that all the above financial assets that are not impaired or past due for each reporting period are of good credit quality.

In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

The aging analysis of the Group's financial assets that are not impaired as of June 30, 2020, is as follows:

| | As of June 30, 2020 | | | | |
|---|---|---|---|---|---|
| | Past Due Accounts but Not Impaired | | | | |
| | 0 to 60 Days Past Due | 61 to 90 Days Past Due | 91 to 120 Days Past Due | Over 120 Days Past Due | Total |
| Cash and cash equivalents | 5,500,140,380 | - | - | - | 5,500,140,380 |
| Trade and Other Receivables - net | 8,667,551,093 | - | - | - | 8,667,551,093 |
| Due from Related Parties | 284,592,505 | - | - | - | 284,592,505 |
| Security deposits | - | - | - | 84,731,056 | 84,731,056 |
| | 14,452,283,978 | - | - | 84,731,056 | 14,537,015,035 |

The aging analysis of the Group's individual receivables as of June 30, 2020, and December 31, 2019, is as follows:

| | Amount in Php | Amount in Php |
|---|---|---|
| | As of June 30, 2020 | As of December 31, 2019 |
| 60 to 90 days | 8,667,551,093 | 5,942,182,397 |
| 91 to 120 days | - | - |
| Over 120 days | - | - |
| | 8,667,551,093 | 5,942,182,397 |

*Liquidity Risk*

The ability of the Group to finance their operations and to meet obligation as these become due is extremely crucial to its viability as a business entity. The Companies adopt a prudent liquidity risk

management where they maintain sufficient cash to meet trade and other short term payables as they fall due.

The Group manages their liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash outflows due in a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.

The following table details the Group's remaining contractual maturities for its non-derivative financial liabilities:

| | Amount in Php | | |
|---|---|---|---|
| | Within One Year | More than One Year | Total |
| **As of June 30, 2020** | | | |
| Loans payable | 2,148,500,000 | | 2,148,500,000 |
| Trade and other payables | 10,558,375,302 | | 10,558,375,301.73 |
| Due to related parties | 44,352,432 | | 44,352,432.02 |
| | 12,751,227,734 | - | 12,751,227,734 |
| **As of December 31, 2019** | | | |
| Loans payable | 2,433,508,587 | | 2,433,508,587 |
| Trade and other payables | 6,832,729,150 | | 6,832,729,150.06 |
| Due to related parties | 19,706,847 | | 19,706,846.95 |
| | 9,285,944,584 | - | 9,285,944,584 |

*Note: The amount does not include government liabilities which are not considered financial liabilities.*

## 17. CAPITAL MANAGEMENT RISK

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximizing the profits of the shareholders through the optimization of the debt and equity balance.

The capital structure of the Group consists of debt, which includes loans, trade and other payables and due to related parties as offset by cash and cash equivalents, and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

The debt to equity ratio of the Group at each reporting period is within the acceptable range as the Group regularly reviews its financials to ensure compliance with this capital requirement.

| | Amount in Php | |
|---|---|---|
| | As of June 30, 2020 | As of December 31, 2019 |
| Debt | 16,986,359,586 | 13,434,453,802 |
| Less : Cash and cash equivalents | 5,500,140,380 | 1,607,844,054 |
| Net debt | 11,486,219,205 | 11,826,609,747 |
| Equity | 21,398,777,720 | 19,154,317,748 |
| Debt to equity ratio | 0.54:1 | 0.62:1 |