# COVER SHEET

1 4 7 8 2

S.E.C. Registration Number

L I B E R T Y F L O U R M I L L S , I N C .

(Company's Full Name)

L i b e r t y B l d g . 8 3 5 A A r n a i z
A v e n u e , M a k a t i C i t Y

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

MA. ELISA G. LEDESMA

Contact Person

889-8677

Company Telephone

Number

1 2 | 3 1

Month Day

Day

Fiscal Year

Meeting

PREMILINARY INFORMATION SHEET

FORM TYPE

0 5 | 2 7

Month

Annual

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Number/Section

Amended Articles

Total Amount of Borrowings

---

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes.

Liberty

## NOTICE OF ANNUAL STOCKHOLDERS' MEETING

| | | |
|---|---|---|
| TO | : | All the stockholders of LIBERTY FLOUR MILLS, INC. |
| FROM | : | Corporate Secretary |
| SUBJECT | : | The Annual Stockholders' Meeting - 30 May 2018 |

Please be informed that the Annual Stockholders' Meeting of Liberty Flour Mills, Inc. shall be held on 30 May 2018 at 4:00 PM at Liberty Building 835 A. Arnaiz Avenue, Makati City.

The Agenda for the Meeting is as follows:

1. Call to Order
2. Secretary's Proof of Notice and Quorum
3. Approval of the Minutes of the Stockholders' Meeting held on 31 May 2017
4. Annual Report of the President and the Chairman of the Board
5. Ratification of all Acts and Proceedings of the Board of Directors and Corporate Officers
6. Election of Directors
7. Appointment of External Auditor
8. Other Matters
9. Adjournment

The Minutes of the last Stockholders' Meeting and resolutions of the Board of Directors will be available for inspection during office hours at the Office of the Corporate Secretary. In addition, copies of the minutes will also be made available at the meeting.

Under the resolution of the Board of Directors dated 21 March 2018, only stockholders as of 04 May 2018 shall be entitled to notice and to vote at the said meeting.

Should you be unable to attend the meeting, please accomplish the proxy form attached hereto and return the same to us.

Very Truly Yours,

**VICENTE S. VARGAS**
*Corporate Secretary*

LIBERTY FLOUR MILLS, INC.
MCPO 1571 Makati City E-mail: info@ libertygroup.com.ph
MANAGEMENT OFFICE:
Liberty Building 835 A. Arnaiz Avenue
Legaspi Village, Makati City 1229 Philippines
Tel +63 2 8925011 to 20 Fax +63 2 8932644

PLANT:
528 F.Blumentritt Extension
Mandaluyong City 1550 Philippines
Tel + 63 2 5322001 to 04 Fax + 63 2 5317985

# PROXY

I, ________________________________, a stockholder of record of LIBERTY FLOUR MILLS, INC. hereby name, constitute and appoint, the Chairman, Mr. WILLIAM CARLOS UY, to be my true and lawful attorney and for me and in my name, place and stead, to vote at the Annual Stockholders' Meeting on 30 May 2018, 4:00PM at Liberty Building, 835 A. Arnaiz Avenue, Makati City, and at any adjournment thereof.

The following matters will be considered and I hereby authorize the above-named proxy to vote all my shares as follows:

| Matter | Approve | Disapprove | Abstain |
|---|---|---|---|
| Approval of the Minutes of the 2017 Annual Stockholders' Meeting | | | |
| Ratification of all Acts and Proceedings of the Board of Directors and Corporate Officers | | | |
| Appointment of External Auditor | | | |
| Other Matters | | | |

In addition, I authorize the above-named proxy to vote all my shares equally for election of the following persons who have been nominated as directors:

| Nominees | |
|---|---|
| JESUS JALANDONI JR. | WILLIAM ANG |
| WILLIAM CARLOS UY | JOSE MA. S. LOPEZ |
| DANIEL R. MARAMBA | JOSE JALANDONI |
| SANDRA JUDY UY | JOSE A. FERIA JR.* |
| JOHN CARLOS UY | DAVID NG* |
| VICENTE S. VARGAS | |

**Independent Director*

(Note: The Stockholder may withhold authority to vote for any of the nominees by lining through or striking out the name/s of the nominee/s. In which case, the total votes of the Stockholder shall be divided equally among the remaining nominees)

In the event that this Proxy is returned without a choice having been made in any or all of the above items, I hereby authorize the above-named proxy to vote all my shares at the above-named proxy's discretion. In which case, the above-named proxy intends to vote for the approval of all the above matters and for the election of all the nominees above-mentioned.

In addition, I hereby grant discretionary powers to the above-named proxy as to other matters incidental to the conduct of the meeting.

IN WITNESS WHEREOF, I have set my hand this ___ day of ______________, 2018 at ________________________.

________________________
Signature

________________________
Name in Print

________________________
No. of Shares

**THIS PROXY IS BEING SOLICITED ON BEHALF OF LIBERTY FLOUR MILLS, INC.**

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

INFORMATION STATEMENT PURSUANT TO SECTION 20
OF THE SECURITIES REGULATION CODE

1. Check the appropriate box:

   [X] Preliminary Information Statement

   [ ] Definitive Information Statement

2. Name of Registrant as specified in its charter: LIBERTY FLOUR MILLS, INC.

3. Province, country or other jurisdiction of incorporation or organization: Metro Manila

4. SEC Identification Number: 14782

5. BIR Tax Identification Code: 128-846-000

6. Address of principal office and Postal Code: Liberty Building, 835 A. Arnaiz Avenue, Makati City 1200

7. Registrant's telephone number, including area code: (632) 892-5011

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

   30 May 2018
   4:00 P.M.
   Liberty Building, 835 A. Arnaiz Avenue
   Makati City

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

   10 May 2018

10. In case of Proxy Solicitations:

    Name of Person Filing the Statement/Solicitor: Liberty Flour Mills, Inc.
    Address and Telephone No.: Liberty Building, 835 A. Arnaiz Avenue, Makati City; (632) 892-5011

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

| Title of Each Class | Number of Shares of Common Stock Outstanding or Amount of Debt Outstanding |
|---|---|
| Common | 150,000,000 |

12. Are any or all of registrant's securities listed in a Stock Exchange?

    Yes _/_ No ______

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

    The Philippine Stock Exchange, Inc.; Common Shares

# INFORMATION STATEMENT

## For the 2018 Annual Stockholders' Meeting

**Liberty Building, 835 A. Arnaiz Avenue, Makati City**
**30 May 2018**
**4:00 o'clock PM**

INFORMATION REQUIRED IN INFORMATION STATEMENT

GENERAL INFORMATION

Date, time and place of meeting of security holders and mailing address

| | | |
|---|---|---|
| a. | date, time and place of the meeting : | 30 May 2018<br>4:00 o'clock PM<br>Liberty Building, 835 A. Arnaiz Avenue<br>Makati City |
| b. | complete mailing address of principal office : | Liberty Flour Mills, Inc.<br>Liberty Building<br>835 A. Arnaiz Avenue,<br>Makati City |

The Company intends to send the notice of Annual Stockholders' Meeting, copies of the definitive information statement, the proxy form and the 2016 Annual Report sometime on 12 May 2017.

Dissenters' Right of Appraisal

Any stockholder of Liberty Flour Mills, Inc. (hereinafter the "*Company*") may exercise his appraisal right against any proposed corporate action which qualifies as an instance under Section 81 of the Corporation Code and which gives rise to the exercise of such appraisal right pursuant to and in the manner provided in Section 82 of the Corporation Code. The Company does not reasonably foresee the happening of any instance which may warrant the exercise of the appraisal right by any stockholder during the Annual Stockholders' Meeting.

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

None of the members of the board of directors or senior management have any substantial interest in the matters to be acted upon by the stockholders in the Annual Stockholders Meeting.

As of 31 March 2018, the board of directors and senior management, as a group, own 14,211,168 common shares which is approximately 9.47% of the outstanding common stock.

None of the Company's directors have manifested any intention of opposing any action intended to be taken by the Company during the scheduled annual stockholders meeting.

CONTROL AND COMPENSATION INFORMATION

Voting Securities and Principal Holders Thereof

As of 31 March 2018, 150,000,000 common shares of the Company have been issued and 150,000,000 are outstanding. All stockholders of record at the close of business on 4 May 2018 (*"Record Date"*) shall be entitled to notice and to vote at the said meeting, provided that those who shall be attending by proxy, must have had their respective proxies validated by the Company at least seven (7) days before the meeting.

For the purpose of electing directors during the scheduled Annual Stockholders' Meeting, each shareholder shall have the option of cumulating his votes by giving one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal as of Record Date, or he may distribute them on the same principle among as many candidates as he shall see fit, in accordance with Section 24 of the Corporation Code; provided, that the total number of votes cast by him shall not exceed the number of shares owned by him as shown in the books of the Company as of Record Date multiplied by the whole number of directors to be elected.

The total number of votes that may be cast by a stockholder of the Company for the election of directors is computed as follows: number of shares held on record as of Record Date x 11 directors.

For all other matters requiring a vote in the Annual Stockholders' Meeting, each share shall be entitled to one vote.

## SECURITY OWNERSHIP OF CERTAIN RECORD AND BENEFICIAL OWNERS AND MANAGEMENT

### Security Ownership of Certain Record and Beneficial Owners

Owners of record of more than five percent (5%) of the Company's voting securities, were as follows:

| Title of Class | Name, address of record owner and relationship with issuer | Name of Beneficial Owner and Relationship with Record Owner | Citizenship | No. of Shares Held | Percent of Class |
|---|---|---|---|---|---|
| Common | Parity Values, Inc.<br>Ground Floor, Liberty Building<br>835 A. Arnaiz Avenue, Makati City<br>Business | William Carlos Uy is the Chairman and President and CEO of Parity Values Inc.<br><br>John Carlos Uy is a Director and General Manager of Parity Values, Inc.<br><br>William Ang is a Director and 1st Vice President and Treasurer of Parity Values, Inc. | Filipino | 61,090,927 | 40.72% |
| Common | William Carlos Uy<br>President/CEO | Beneficial Owner | Filipino | 12,561,556 | 8.37% |

### Security Ownership of Management

Directors/Nominees

| Title of class | Name of Beneficial Owners | Amount and nature of beneficial ownership | | Citizenship | Percent of ownership |
|---|---|---|---|---|---|
| Common | William Carlos Uy | 12,561,556 | Sole Voting | Filipino | 8.37% |
| Common | Daniel R. Maramba | 433,596 | Sole Voting | Filipino | 0.28% |
| Common | Jose Ma. S. Lopez | 624,465 | Sole Voting | Filipino | 0.41% |
| Common | Jose S. Jalandoni | 1 | Sole Voting | Filipino | Negligible |
| Common | Vicente S. Vargas | 472,353 | Sole Voting | Filipino | 0.31% |
| Common | William Ang | 374 | Sole Voting | Filipino | Negligible |
| Common | John Carlos Uy | 374 | Sole Voting | Filipino | Negligible |
| Common | Jose A. Feria, Jr.* | 36 | Sole Voting | Filipino | Negligible |
| Common | Jesus Jalandoni, Jr. | 118,034 | Sole Voting | Filipino | 0.07% |

| | | | | | |
|---|---|---|---|---|---|
| Common | David Ng* | 377 | Sole Voting | Filipino | Negligible |
| Common | Sandra Uy | 2 | Sole Voting | Filipino | Negligible |

*Independent Director

Senior Management

| Title of class | Name of Beneficial Owners | Amount and nature of beneficial ownership | | Citizenship | Percent of ownership |
|---|---|---|---|---|---|
| Common | JOSE MA. S. LOPEZ | 624,465 | Sole Voting | Filipino | 0.41% |
| Common | WILLIAM CARLOS UY | 12,561,556 | Sole Voting | Filipino | 8.37% |
| Common | VICENTE S. VARGAS | 472,353 | Sole Voting | Filipino | 0.31% |

All directors and officers as a group

| Title of class | Name of Beneficial Owners | Amount and nature of beneficial ownership | | Percent of class |
|---|---|---|---|---|
| Common | All directors and officers as a group | 14,211,168 | Sole Voting | 9.47% |

Directors and Executive Officers

The Articles of Incorporation of the Company provide that the Directors of the Company shall hold office for one (1) year and until their successors are elected and qualified.

The Directors of the Company are as follows:

| Name of Directors | Age | Citizenship | Position |
|---|---|---|---|
| William Carlos Uy | 76 | Filipino | Chairman of the Board |
| Sandra Uy | 41 | Filipino | Director |
| John Carlos Uy | 67 | Filipino | Director |
| Vicente Vargas | 61 | Filipino | Director |
| William Ang* | 67 | Filipino | Director |
| David Ng | 56 | Filipino | Director |
| Jose Ma. S. Lopez | 73 | Filipino | Director |
| Jesus Jalandoni | 60 | Filipino | Director |
| Daniel Maramba | 45 | Filipino | Director |
| Jose A. Feria Jr.* | 69 | Filipino | Director |

* Independent Director

The Senior Management of the Company is as follows:

| Name | Age | Citizenship | Position |
|---|---|---|---|
| William Carlos Uy | 76 | Filipino | President |
| Sandra Uy | 41 | Filipino | Senior Vice President – Manufacturing |
| Vicente Vargas | 61 | Filipino | Corporate Secretary |
| Jose Ma. Lopez | 73 | Filipino | Senior Vice President & Treasurer |

Following is a brief description of the respective backgrounds of the Company's directors and senior management, who have all been nominated for another term, their respective ages and involvement in other businesses for the past five (5) years:

William Carlos Uy. 76 years old. He serves as the President and director of the Company. He is presently the President of Parity Values, Inc. and UPCC Securities Corporation. He also serves as the Vice Chairman of UPCC Holdings Corporation and a director of CCC Insurance Corporation.

John Carlos Uy. 67 years old. He is a director of the Company. He also serves as a director and the general manager of Parity Values, Inc., one of the stockholders of the Company.

Vicente Vargas. 61 years old. He is a director and Corporate Secretary of the Company. He is also the President of JM Brenton Industries, Inc., JM Processing & Freezing Services, Inc., JM Cold Storage, Inc., JM Kool Corporation. He also serves as the Executive Vice-President and Chief Operating Officer of JM & Company, Inc. and Treasurer of McJola, Inc. and L&J Agricultural, Inc.

William L. Ang. 67 years old. He is a director of the Company. Mr. Ang holds the position of First Vice-President and Treasurer of Parity Values, Inc. He is also a stockholder and Treasurer of Trade Demands Corporation.

Jose Ma. S. Lopez. 73 years old. He is a director and Senior Vice President and Treasurer of the Company. Likewise, He is a director in other corporations including: Agchem Manufacturing Corporation, Liberty Commodities Corporation and CCC Insurance Corporation. He is also presently the Senior Vice-President for Lopez Sugar Corporation.

David Ng, 56 years old. He is a director of the Company. He is presently holding the President of Merlin Mining Corporation, Sandalfold Estate Development Corporation and Lucky Jade Corporation. He is also the General Manager of New RTC International Co., Inc., Administrator of Logic Pacific, Inc. and Partner of CNP Architects.

Jesus S. Jalandoni, Jr. 60 years old. He is the Managing Director of Alegria Development Corporation; President of LFM Properties Corp.; Managing Director of Premium Wine Exchange; President of Valueline Realty & Development Corp. Executive Vice-President and Treasurer of Enterprise Leasing Corporation; Vice-President of Kanlaon Development Corp.; Vice-President of Kanlaon Farms, Inc.; Vice-President of Jayjay Realty Corporation; Director of JM Processing and Freezing Corp.; and Director of Personal Computer Specialist, Inc.

Sandra Uy, 41 years old. She serves as a director and Senior Vice-President of the Company.

Jose A. Feria, Jr., 69 years old. He is the Senior Partner of Feria Tantoco Daos Law Offices. Atty. Feria is the Chairman of Cyan Management Corporation, Directories Philippines Corporation, MG Exeo Network, Inc., Premiere Travel and Tours, Inc., Padre Burgos Realty, Inc. Spencer Food Corporation, Vinnel Belvoir Corporation. He also serves as director of EYP.PH Corporation, Assessment Analytics, Inc. Macawiwili Gold Mining & Development Corporation and Corporate Secretary of Aero Asia, Inc. and Air Asia, Inc., Gawad Kalinga Foundation, Inc. and PinoyMe Foundation, Inc.

Independent Directors

The Nominations Committee of the Company, which was constituted in accordance with the Company's Manual on Corporate Governance, pre-screens and shortlists all candidates in accordance with the said Manual on Corporate

Governance. In a meeting of the Nominations Committee of the Company on 31 May 2017, Mr. William Carlos Uy nominated Mr. David Ng and Atty. Jose A. Feria, Jr. to be the Company's independent directors for the ensuing corporate year.

Other than as stated above, no new persons were named and nominated to be the Company's independent directors for the ensuing corporate year.

The members of the Company's Nomination Committee are: Mr. Jose A. Feria Jr., Mr. Vicente Vargas and Mr. John Carlos Uy, with Mr. Jose A. Feria Jr. as Chairman.

On the other hand, the members of the Company's Audit Committee are: David Ng as Chairman and Jose Jalandoni and Jose A. Feria, Jr. as members.

**Significant Employees**

Other than the persons named above, the Company does not expect any other person to make a significant contribution to the business of the Company.

**Family Relationships**

William Carlos Uy and John Carlos Uy are brothers. Jose Jalandoni, Jesus Jalandoni Jr., Jose Ma. S. Lopez and Vicente Vargas are first cousins. Sandra Uy is the daughter of William Carlos Uy and niece of John Carlos Uy.

Other than the above, the Company is not aware of any family relationships among the directors, senior management or persons nominated or chosen by the Company to become directors or senior managers.

**Certain Relationships and Related Transactions**

Some of the directors of the Company are also directors and stockholders of the different distributors of the different brands of flour of the Company. All transactions, however, between the Company and the distributors are at arms length and above board.

These directors are as follows:

| Directors | Related Distribution Companies |
|---|---|
| William Carlos Uy | Parity Values, Inc.<br>Trade Demands, Inc.<br>Liberty Commodities Corporation |
| Jose Ma. S. Lopez | Liberty Commodities Corporation |
| John Carlos Uy | Parity Values, Inc.<br>Trade Demands, Inc.<br>Liberty Commodities Corporation |
| William Ang | Parity Values, Inc.<br>Trade Demands, Inc. |

The business purpose between the Company and the related parties mentioned above is that the above-mentioned corporations serve as distributors of the Company's flour and feed products. Transaction prices are determined by the Company and the above-mentioned related parties by actual costing of products plus a certain mark-up; likewise, price levels are dictated by market competition.

The transactions with related parties are always evaluated with fairness and are accounted for at arms' length prices or on terms similar to those offered to non-related entities in an economically comparable market.

**Involvement in Certain Legal Proceedings**

All the directors and officers of the Company possess a high degree of integrity and character and are fully capable to perform their duties as directors and officers respectively. None of the directors or officers has been declared bankrupt nor has there been any petition filed by or against any of the directors, nor to any businesses of which they were a part of. Nor have any of them been convicted of any crime, domestic or foreign and there are no criminal proceedings or are there any material litigation presently pending against any of them or any of their properties or between any of them and the Company which are material to an evaluation of the ability or integrity of any director or officer of the Company as described in Part II, Paragraph (c) of the Securities Regulation Code ("*SRC*") Rule 12. None of them been temporarily or permanently barred, suspended or otherwise limiting any of their involvement in any type of business.

The Company is involved in legal proceedings and tax assessments and claims occurring in the ordinary course of business. In consultation with the Group's external legal counsels, management believes that the ultimate disposition of the above matters will not have any material adverse effect on the Group's operation or its financial condition.

**Compensation of Directors and Executive Officers**

The aggregate compensation paid to the Company's Executive Officers for the years 2017 and 2016 are PhP13.94 Million and PhP14.43 Million, respectively.

Information as to the aggregate compensation paid or accrued by the Company during the last two (2) fiscal years and to be paid in the ensuing fiscal year to the Company's Chief Executive Officer and Three (3) most highly compensated executive officers, namely, William Carlos Uy, Jose Ma. S. Lopez and Sandra Uy are as follows:

| | Salaries | Bonus | Others | Total |
|---|---|---|---|---|
| **2017** | | | | |
| William Carlos Uy<br>*Chairman and President* | 2,262,238 | 2,335,066 | 65,000 | 4,662,304 |
| Jose Ma. S. Lopez<br>*Senior Vice President for Finance* | 2,924,657 | 2,099,391 | 65,000 | 5,089,048 |
| Sandra Judy Uy<br>*Senior Vice President - Manufacturing* | 1,774,827 | 2,350,455 | 65,000 | 4,190,282 |
| **Total** | **6,961,722** | **6,784,912** | **195,000** | **13,941,634** |
| **2016** | | | | |
| William Carlos Uy<br>*Chairman and President* | 2,228,923 | 2,933,084 | 65,000 | 5,227,007 |
| Jose Ma. S. Lopez<br>*Senior Vice President for Finance* | 2,128,709 | 2,399,165 | 65,000 | 4,592,874 |
| Sandra Judy Uy<br>*Senior Vice President - Manufacturing* | 1,617,096 | 2,933,084 | 65,000 | 4,615,180 |
| **Total** | **5,974,728** | **8,265,333** | **195,000** | **14,435,061** |

The amount of compensation for the above-named executive officers as a group for the last two (2) fiscal years are as follows:

| Name and Principal Position | Year | Salary (₱) | Bonus (₱) | Others(₱) | Total (₱) |
|---|---|---|---|---|---|

| | | | | | |
|---|---|---|---|---|---|
| Total compensation for the above-named Three (3) most highly compensated executive officers | 2017 | 6.96Million | 6.78Million | .20Million | 13.94Million |
| | 2016 | 5.97Million | 8.26Million | .20Million | 14.43Million |
| All other officers and directors as a group | 2017 | 1.09Million | 6.78Million | .20Million | 8.07Million |
| | 2016 | 2.01Million | 1.6Million | .35Million | 4.57Million |

Aside from the above-mentioned executive officers of the Company who receive compensation as such officers and reasonable per diems, as directors of the Company, all the other directors of the Company do not receive any compensation except reasonable per diems for attendance during meetings.

There are no special compensatory arrangements between the Company and any of its directors or officers.

Independent Public Accountants

Sycip Gorres Velayo & Co (*"SGV"*) is presently the Company's independent auditor. The audit services provided by Sycip Gorres Velayo & Co. for the fiscal year ended 31 December 2017 included the examination of the financial statements of the Company, preparation of the final income tax returns and other services related to filing of reports with the Securities and Exchange Commission. Other than the preparation and filing of income tax return, the Company has not engaged SGV on any tax services.

There have been no changes in nor disagreements with accountants on accounting and financial disclosure. In compliance with the Code of Corporate Governance and SEC Memorandum Circular No. 8, Series of 2003, the Corporation replaced its former external auditor KPMG Manabat Sanagustin (formerly, Laya Mananghaya & Co) to Sycip Gorres Velayo & Co as the new external auditor effective October 2007.

The audit committee at the start of the calendar year discuss, evaluate and reviews the nature and scope of the audit including the appointment of external auditor, the audit fees and any question of resignation or dismissal. Further, the audit committee reviews the quarterly, half-year and annual financial statements before submission to the Board, focusing particularly on any change in the accounting policies and practices, major judgmental areas, significant adjustments resulting from the audit, going concern assumption, compliance with accounting standards and compliance with tax, legal and stock exchange requirements.

Representatives of the Company's external auditor are expected to be present in the 2018 Annual Stockholders' Meeting. They are expected to have an opportunity to make statements if they so desire, and to be available to respond to appropriate questions.

OTHER MATTERS

Action with Respect to Reports

During the scheduled Annual Stockholders Meeting, the following reports shall be submitted to the stockholders for their approval:

1. The Minutes of the Annual Stockholders Meeting held on 31 May 2017; and
2. The Financial Statements for the fiscal year ended 31 December 2017.

The Minutes of the last Annual Stockholders' Meeting and resolutions of the Board of Directors will be made available to stockholders upon request.

During the last Annual Stockholder's Meeting held on 31 May 2017, out of 150,000,000 shares issued and outstanding, 127,339,761 shares were represented either in person or by proxy representing 84.89% of the Company's total issued and outstanding shares of stock. At the said meeting, the Minutes of the Annual Stockholders' Meeting of the Company held on 25 May 2016 were approved.

Likewise, at the said meeting, the current directors of the Company were elected to act as directors of the Company for the ensuing corporate year and to serve as such until the election and qualification of their successors.

The shareholders approved and elected Sycip Gorres Velayo & Co. as external auditors of the Company at the same meeting.

Matters Not Required to be Submitted

The acts and proceedings of the board of directors covering the period 31 May 2017 to 30 May 2018 shall also be discussed and submitted to the stockholders for their ratification in order to obtain a confirmation of support from the stockholders for all the acts and decisions taken by the board of directors and management during the above-mentioned period. In the event that the action of the stockholders is a negative vote, the board of directors and management shall have the option to disregard the action completely or study the matter further.

Copies of the resolutions of the board of directors and the Minutes of their meetings will be available upon request.

Other Proposed Action

Other than the matters discussed above and those provided in the Agenda, the Company does not propose to take up any other matter for consideration of the stockholders.

Voting Procedures

Vote required for approval

All matters subject to vote, except in cases where the law provides otherwise, shall be decided by the plurality vote of stockholders present in person or by proxy and entitled to vote thereat, provided that a quorum is present.

For election of directors, a stockholder may vote such number of shares for as many persons as there are directors to be elected or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares, or he may distribute them on the same principle among as many candidates as he shall see fit.

Method by which votes will be counted

Except in cases where voting by ballot is requested, voting and counting shall be viva voce. If by ballot, each ballot shall be signed by the stockholder voting, or in his name by his proxy if there be such proxy, and shall state the number of shares voted by him. The counting thereof shall be supervised by the external auditors and the transfer agent.

## INFORMATION REQUIRED IN A PROXY FORM

IDENTIFICATION

The solicitation is being made by the Company for the purpose of obtaining the necessary quorum for the Annual Stockholders' Meeting and having the matters subject of said meeting approved and/or ratified by the stockholders, namely: (1) the minutes of the previous stockholders' meeting; (2) acts and proceedings of the Board of Directors and Corporate Officers; (3) the Financial Statements of the Company; (3) the appointment of external auditors; (4) election of the board of directors; and (5) other matters that may be taken up during said meeting.

The Chairman of the Company, Mr. William Carlos Uy will be constituted as the true and lawful attorney of a stockholder of record of the Company to vote in the name, place and stead of the said stockholder at the Annual Stockholders' Meeting on 30 May 2018.

INSTRUCTION

The Proxy Form shall be accomplished in accordance with the instructions set out in the Proxy Form, by means of marking the appropriate box for an action in an item. In the case of election of directors of the Company, a stockholder may withhold authority to vote for any of the nominees by lining through or striking out the name/s of the nominee/s. In which case, the total votes of the stockholder shall be divided equally among the remaining nominees.

In the event that this Proxy is returned without a choice having been made in any or all of the above items, the proxy is authorized to vote all the stockholder's shares at the proxy's discretion. In which case, the proxy shall vote for the approval of all the matters and for the election of all the nominees mentioned in the Proxy Form.

In addition, the proxy is granted discretionary powers as to other matters incidental to the conduct of the meeting.

The Proxy Form shall be validated by means of cross-checking the signature of the stockholders against the signature cards with the Company's stock transfer agent. In the event the Proxy Form needs further validation, verification shall be made with the stockholder concerned itself.

The validation must have been confirmed by the Company at least 7 days prior to the date of the meeting.

The matters to be taken up in the meeting are as follows:

1. Approval of the Minutes of the 2017 Annual Stockholders' Meeting held on 31 May 2017;
2. Ratification of all Acts and Proceedings of the Board of Directors and Corporate Officers;
3. Appointment of External Auditor; and
4. Election of the following nominated persons as members of the Board of Directors of the Company:

    a. JESUS JALANDONI JR
    b. WILLIAM CARLOS UY
    c. DANIEL R. MARAMBA, JR.
    d. SANDRA UY
    e. JOHN CARLOS UY
    f. JOSE JALANDONI
    g. VINCENT VARGAS
    h. WILLIAM ANG
    i. JOSE MA. S. LOPEZ
    j. DAVID NG (Independent Director)
    k. JOSE A. FERIA, JR. (Independent Director)

A stockholder may withhold authority to vote for any of the nominees by lining through or striking out the name/s of the nominee/s. In which case, the total votes of the stockholder shall be divided equally among the remaining nominees.

REVOCABILITY OF PROXY

The person giving the proxy has the right to revoke the proxy by personal appearance or execution of a proxy at a later date, subject to the pertinent requirements of the law and SEC Circular Number 5, Series of 1996.

PERSONS MAKING THE SOLICITATION

The solicitation is being made by the Company for the purpose of obtaining the necessary quorum for the annual stockholders meeting and having the matters subject of said meeting approved and/or ratified by the stockholders, namely: (1) the minutes of the previous stockholders' meeting; (2) acts and proceedings of the Board of Directors and Corporate Officers; (3) the Financial Statements of the Company; (3) the appointment of external auditors; and (4) election of the board of directors; and (5) other matters that may be taken up during said meeting.

None of the Company's directors have manifested any intention of opposing any action intended to be taken by the Company during the scheduled Annual Stockholders' Meeting.

All costs of solicitation for proxies including the costs of engaging messengerial and courier services shall be borne by the Company. Except for the costs incidental to the preparation and sending out of notices and proxies, the Company has not paid nor engaged any other employee or solicitor to undertake the solicitation of proxies. The cost of solicitation which is approximately PhP30,000.00 will be borne by the Company.

INTEREST OF CERTAIN PERSONS IN MATTERS TO BE ACTED UPON

None of the members of the board of directors or senior management have any substantial interest in the matters to be acted upon by the stockholders in the Annual Stockholders Meeting.

As of 31 March 2018, the board of directors and senior management, as a group, own 14,211,168 common shares which is approximately 9.47% of the outstanding common stock.

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Makati on April 2018.

**VICENTE VARGAS**
CORPORATE SECRETARY

| A copy of SEC Form 17-A may be provided free of charge to any stockholder upon written request to the Company |
| --- |

Liberty

MANAGEMENT REPORT

OF

LIBERTY FLOUR MILLS, INC.

## CONSOLIDATED AUDITED FINANCIAL STATEMENTS

The Company's consolidated audited Financial Statements for the year ended 31 December 2017 is attached as Annex "A" of this Management Report.

## CHANGES IN AND DISAGREEMENT WITH ACCOUNTANTS ON ACCOUNTING DISCLOSURE

There have been neither changes in nor disagreements with accountants on accounting and financial disclosure.

In compliance with the Code of Corporate Governance and SEC Memorandum Circular No.8, Series of 2003, the Corporation replaced its former external auditor, KPMG Manabat Sanagustin (formerly, Laya Mananghaya & Co.) with Sycip Gorres Velayo & Co. effective October 2007.

The external auditor estimated fee for 2018 is in the aggregate amount of PhP860,000 which includes the preparation of the fee for the consolidated audited financial report of the parent company and its subsidiaries.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

*The selected financial information of the Company set forth below are derived from the audited financial statements submitted by Sycip Gorres Velayo & Co. for 2017:*

### Income Statement Data

| | For the Year December 31 *(in Thousands of Pesos)* | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| Income | 912,021 | 1,072,624 | 1,403,917 |
| Expense | (787,984) | (915,636) | (1,163,642) |
| Income Before Tax | 124,037 | 156,988 | 240,275 |
| Provision for Tax | (21,349) | (26,770) | (76,894) |
| **Net Income** | **102,688** | **130,218** | **163,381** |

### Balance Sheet Data

| | As of December 31 (in Thousands of Pesos) | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| Assets: | | | |
| Cash and cash equivalents | 131,986 | 158,851 | 162,338 |
| Receivables | 763,095 | 790,358 | 834,318 |
| Financial assets at FVPL | 167,359 | 51,149 | 46,853 |
| Inventories | 205,261 | 252,754 | 218,783 |
| Accrued rent – current | -- | - | 2,107 |
| Prepaid expenses and other current assets | 74,946 | 71,897 | 56,902 |
| Available-for-sale investments | 1,270,220 | 1,242,446 | 1,161,979 |
| Investment properties | 997,369 | 749,674 | 672,029 |
| Property, plant and equipment | 66,587 | 78,122 | 90,827 |
| Accrued rent – noncurrent | 4,718 | 2,666 | 1,957 |
| Deferred income tax assets | 28,973 | 35,072 | 138 |

| | | | |
|---|---|---|---|
| Deposit for future stock subscription | - | | - |
| Other noncurrent assets | 3,229 | 8,039 | 7,937 |
| **Total Assets** | **3,713,743** | **3,441,028** | **3,256,168** |
| | | - | - |
| Liabilities: | | | |
| Liabilities under trust receipts | | | |
| Notes payable | 670,459 | 390,913 | 169,000 |
| Loans payable - current | -- | - | 27,778 |
| Accounts payable and accrued expenses | 155,690 | 118,858 | 53,336 |
| Income tax payable | 1,040 | 10,274 | 17,498 |
| Deposits on long-term leases - current | 9,790 | 6,952 | 11,385 |
| Unearned rental income - current | 3,647 | 3,123 | 2,119 |
| Loans payable - noncurrent | - | | - |
| Deposits on long-term leases - noncurrent | 5,465 | 5,463 | 1,104 |
| Unearned rental income - noncurrent | 600 | 571 | 61 |
| Net retirement plan liability | 99,769 | 110,863 | 144,124 |
| Deferred income tax liability | 2,594 | - | - |
| **Total Liabilities** | **949,054** | **647,016** | **426,405** |
| Stockholders' Equity | | | |
| Capital stock - P10 par value | | | |
| Issued - 50 million shares | 1,500,000 | 1,500,000 | 1,500,000 |
| Stock dividends distributable | | - | - |
| Fair value changes on AFS investments | 18,350 | 42,734 | 12,673 |
| Accumulated remeasurement loss on retirement | (3,183) | (8,057) | (37,026) |
| Retained earnings - appropriated | - | - | - |
| Retained earnings - unappropriated | 1,249,522 | 1,259,334 | 1,354,116 |
| Treasury stock | - | - | - |
| Total Stockholders' Equity | **2,764,689** | **2,794,012** | **2,829,763** |
| **Total Liabilities and Stockholders' Equity** | **3,713,743** | **3,441,028** | **3,256,168** |

## Results of Operations

### 2017

The operations for the year resulted in a net income of P103million, a decrease by 21% from prior year. The decrease in the total sales volume of flour bags and mill feed sold by 13% coupled by decrease in selling prices by 20% compared to 2016 resulted to a decrease in revenue by 17%. The management continuously implemented several cost cutting measures during the year in which resulted to almost proportionate decrease of 14% in Cost of Sales. Also, increasing investments of the Company in shares of stocks and in debt instruments earned higher dividends by 51% but slightly reduced interest income by 6%as compared in 2016. The interest expense was greatly reduced by 26% as it was able to minimize interest expense on Trust Receipts Payables.

As of the year ended December 31, 2017, the total gross income amounted to P314.2million, which reflected the income from the sale of the company's products, rental and real estate income, interest income, and dividend income from the investment of securities. Operating expenses and finance costs amounted to P171.3million and P12.59million, respectively. Operating expenses consists of selling and administrative expenses such as salaries and wages, employee's welfare, depreciation, outside services, taxes, insurance, communications, office supplies, transportations, repairs, maintenance, interest and other expenses.

The total combined assets amounted to P3.71 billion in 2017 while total liabilities amounted to P949.05million which is higher by 8%% and 47%, respectively, from balances in 2016.

The Company has no knowledge of any trends, events or uncertainties which are reasonably expected to have a material impact on the net sales or revenues of the Company.

For the year 2017 there were no seasonal aspects which had a material effect on the Company's financial statements.

Below is a discussion of material changes of accounts which had increased or decreased by 5% or more in 2017 as compared to 2016:

*Financial Assets at FVPL* - There were significant additions made in 2017 by LFM Properties Corp. a subsidiary of the Parent Company resulting to 227% increase in its acquisition of shares of San Miguel Corporation.

*Inventories* - The decrease of 19% in inventory is due to nil inventory in transit of wheat at year end coupled with lower production of flour products due to lower sales.

*Available for Sale of Financial Assets*- There were no significant additions made in 2017.

*Accrued Rent and Other Noncurrent Assets*- There were no significant transactions made in 2017.

*Notes payable* - The Company's subsidiary-LPC obtained short-term notes on various dates in 2017 totaling P302.90million with interest rates ranging from 3.00% to 4.13% of which P23.35 million were paid during the same year.

*Accounts Payable and accrued expenses* - The increase is attributable primarily to the increase in Trust Receipts amounted to P59.18 million in 2017 compared to nil in 2016.

*Income Tax Payable* - Income tax payable decreased as the income for the year decreased substantially.

*Unearned rental income*- The increase is because of the adjustment made on the recognition of rental income using straight line computation per PAS 17 on Lease.

*Accrued Retirement Liability* - The decrease is primarily due to higher benefits payments paid directly by Parent Company in 2017 coupled with remeasurement gain vs. loss last year.

## 2016

The operations for the year resulted in a net income of P130million, a decrease by 20% from prior year. The decrease in the total sales volume of flour bags and mill feed sold by 23% coupled by decrease in selling prices by 25% compared to 2015 resulted to a decrease in revenue by 27%. The management continuously implemented several cost cutting measures during the year in which resulted to almost proportionate decrease of 28% in Cost of Sales. Also, increasing investments of the Company in shares of stocks and in debt instruments earned higher dividends by 22% and basically same interest income as compared in 2015. The interest expense was also reduced by 11%.

As of the year ended December 31, 2016, the total gross income amounted to P381.5 million, which reflected the income from the sale of the company's products, rental and real estate income, interest income, and dividend income from the investment of securities. Operating expenses and finance costs amounted to P182.3million and P10.03million, respectively. Operating expenses consists of selling and administrative expenses such as salaries and wages, employee's welfare, depreciation, outside services, taxes, insurance, communications, office supplies, transportations, repairs, maintenance, interest and other expenses.

The total combined assets amounted to P3.44 billion in 2016 while total liabilities amounted to P647.2million which is higher by 6%% and 52%, respectively, from balances in 2015.

The Company has no knowledge of any trends, events or uncertainties which are reasonably expected to have a material impact on the net sales or revenues of the Company.

For the year 2016, there were no seasonal aspects which had a material effect on the Company's financial statements.

Below is a discussion of material changes of accounts which had increased or decreased by 5% or more in 2016 as compared to 2015:

*Financial Assets at FVPL* - There were no significant additions made in 2016. The increase of 9% in the balance of the investments in financial assets at FVPL is attributable to the increase in the market value of the investments.

*Inventories* – The increase of 16% in inventory is due to the higher purchases of wheat inventories at near year end coupled with lower production of flour products due to lower sales.

*Available for Sale of Financial Assets*– The increase of 7% in AFS is due to the acquisition of some debt securities and equity investments during the year.

*Accrued Rent and Other Noncurrent Assets*– There were no additional rental spaces during the year. The increase is because of the adjustment made on the recognition of rental income using straight line computation per PAS 17 on Lease.

*Liabilities under Trust Receipts* – Nil balance as of year-end due to timing of receipt of purchases at near year-end coupled with settlement of all outstanding payables due to higher cash accumulated during the year.

*Notes Payable* – The Company's subsidiary-LPC obtained short-term notes on various dates in 2016 totaling P616.28million with interest rates ranging from 2.92% to 3.5% of which P225.37 million were fully paid during the same year.

*Accounts Payable and accrued expenses* – The increase is attributable primarily to the increase in Accrued Liabilities-Inventory in transit which was booked to Trust Receipts in January 2017.

*Income Tax Payable* – Income tax payable decreased as the income for the year decreased substantially.

*Unearned Rental Income*- The change was due to recognition of earned portion of rental income during the year.

*Accrued Retirement Liability* – The decrease is primarily due to higher benefits payments paid directly by Parent Company as of December 31, 2016 coupled with remeasurement gain vs. loss last year.

## 2015

The operations for the year resulted in a net income of P165.15million, a decrease by 56% from prior year. The decrease in the total sales volume of flour bags and mill feed sold by 21% coupled by decrease in selling prices by 24% compared to 2014 resulted to a decrease in revenue by 25%. The management continuously implemented several cost cutting measures during the year in which resulted to almost proportionate decrease of 24% in Cost of Sales. Also, increasing investments of the Company in shares of stocks and in debt instruments earned higher dividends by17% and higher interest income of 17% also as compared in 2014. The interest expense was also reduced by 24%.

As of the year ended December 31, 2015, the total gross income amounted to P471.5 million, which reflected the income from the sale of the company's products, rental and real estate income, interest income, and dividend income from the investment of securities. Operating expenses and finance costs amounted to P185.3million and P11.3million, respectively. Operating expenses consists of selling and administrative expenses such as salaries and wages, employee's welfare, depreciation, outside services, taxes, insurance, communications, office supplies, transportations, repairs, maintenance, interest and other expenses.

The total combined assets amounted to P3.26 billion in 2015 while total liabilities amounted to P426.4million which is lower by 15.08%% and 52.51%, respectively, from balances in 2014.

The Company has no knowledge of any trends, events or uncertainties which are reasonably expected to have a material impact on the net sales or revenues of the Company.

For the year 2015, there were no seasonal aspects which had a material effect on the Company's financial statements.

Below is a discussion of material changes of accounts which had increased or decreased by 5% or more in 2015 as compared to 2014:

*Financial Assets at FVPL* - There were no significant additions made in 2015. The decrease of 19% in the balance of the investments in financial assets at FVPL is attributable to the decrease in the market value of the investments.

*Inventories* – The decrease of 48% in inventory is due to the lower purchases of wheat inventories at near year end coupled with lower production of flour products due to lower sales.

*Available for Sale of Financial Assets*– The decrease by 8% in AFS is due to the disposal of some debt securities and equity investments during the year.

*Accrued Rent and Other Noncurrent Assets*– There were no additional rental spaces during the year. The increase is because of the adjustment made on the recognition of rental income using straight line computation per PAS 17 on Lease.

*Liabilities under trust receipts* – Nil balance as of year-end due to lower purchases at near year-end coupled with settlement of all outstanding payables due to higher cash accumulated during the year.

*Notes payable* – The Company paid in full in January 2015 the short term notes payable amounting to 100 million availed during the year 2014.

*Accounts Payable and accrued expenses* – The increase is attributable to the increase in Dividends Payable which remained outstanding as of year-end, increase in customers and tenants deposit and Output VAT payable as part of the accrued expenses balances.

*Income Tax Payable* – Income tax payable decreased as the income for the year decreased substantially.

*Unearned rental income*- The change was due to recognition of earned portion of rental income during the year.

*Accrued Retirement Liability* – The increase is due to additional provision to benefit obligation as of December 31, 2015.

## Performance Indicators

The Company and its subsidiary determine their performance on the following five (5) key performances indicators:

1. Selling Price, Volume and Revenue Growth

These indicate external performance of the Company in relation to the movements of consumer demand and the competitors' action to market behavior. These also express market acceptability and room for development and innovation. These are being monitored and compared as a basis for further study and development.

During the year ended December 31, 2017, there was 17% decrease in revenue as compared to previous years' same period performance. The decrease is attributed to the decrease in the sales volume coupled with price reductions of the Company's products. There was also a slight decrease in the Company's rental income.

2. Cost Contribution

This measures the amount of supply and cost-efficiency of the applicable products of the Company. It shows the trend of supplies' cost particularly in imported raw materials where there are foreign exchange exposures. Costs are analyzed regularly pursuant to cost reduction and efficiency measures.

During the year ended December 31, 2017, there was a 14% decrease in cost of sales over the previous year which is a result from effective management's cost cutting measures. However, this decrease just compensates the decrease in revenue.

3. Gross Profit Contribution

Review of sales less cost is done on a regular basis to check if targets are being met. This measures the profitability within the bounds of cost and demand. Like other indicators, this is reviewed on a regular basis for proper action and consideration.

In 2017, the Company generated gross profit of 30%. There was a decrease of 24% in gross profit as compared in the prior year. The decrease is directly attributable to the substantial decrease in revenue as discussed in item no. 1.

4. Operating margin

This shows the result after operating expenses have been deducted. Operating expenses are examined, checked and traced for major expenses. These are being analyzed and compared to budget and expenses incurred in previous years to ensure prudence and discipline in spending behind marketing and selling activities.

During the year ended December 31, 2017, there was a decrease in operating expenses by 20% over the previous year. Operating income realized this year is 46% lower than the previous year.

5. Plant Capacity Utilization

This determines total usage of the plant capacity. Full utilization produces better yield thus better margin. Standard rates for the plants were set and monthly utilization is determined to properly equate and carefully assess the differences.

There are no events that will trigger direct or contingent financial obligations that are material to the Company, including any default or acceleration of an obligation. There were also no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Company with unconsolidated entities or other persons created during the reporting period.

## Liquidity and Capital Resources

Like in the past years, the Company continued to enjoy a strong cash position all throughout in 2017 with a current ratio at 1.59:1. The working capital requirement of the Company to carry its business is entirely generated internally.

## Summary of 2018 and 2017 Forecasted Financial Statements

The Company has prepared financial projections for the years ending December 31, 2018 and 2019. The Company forecasts its net income to increase by 2% from its preceding year.

The Company does not have any material commitments for capital expenditures for the year 2018.

As the forecast is based on assumptions about circumstances and events that have not yet occurred and are subject to significant uncertainties beyond the Company's control, there can be no assurance that the forecast will be realized. Actual results may be materially different from those shown in the forecast. Under no circumstances should the inclusion of the forecasted financial statements be regarded as a representation, warranty or prediction with respect to the accuracy of the underlying assumptions, or that the Company will achieve or is likely to achieve the particular results.

## Management Discussion of Future Plans for Operation

## BUSINESS OF THE COMPANY

Liberty Flour Mills, Inc. (the "Company") is a stock corporation incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on December 26, 1958. On

December 28, 2008 the Company extended its corporate life for another 50 years. The Company is primarily engaged in the business of manufacturing flour and flour related products.

Liberty Flour Mills, Inc. currently has two (2) subsidiaries, namely: a.) LFM Properties Corporation (LPC) and b.) Liberty Engineering Corporation (LEC). LFM Properties Corporation was incorporated and registered in the Philippines on December 18, 1995 while Liberty Engineering Corporation was incorporated and registered with SEC on December 10, 1965 and extended its corporate life for another 50 years from December 31, 2015. LFM Properties is engage in the business of leasing out office spaces and condominium units. Liberty Engineering Corporation will be on sale, lease and purchase of equipment and machinery.

There is currently no bankruptcy, receivership or any other similar proceedings involving the Company or any of its subsidiaries. Neither was there any material reclassification, merger, consolidation or purchase or sale of a significant amount of the assets of the Company or of any of it is subsidiaries.

## DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

The Articles of Incorporation of the Company provide that the Directors of the Company shall hold office for one (1) year and until their successors are elected and qualified.

The Directors of the Company are as follows:

| Name of Directors | Age | Citizenship | Position |
|---|---|---|---|
| William Carlos Uy | 76 | Filipino | Chairman of the Board |
| Sandra Uy | 41 | Filipino | Director |
| John Carlos Uy | 67 | Filipino | Director |
| Vicente Vargas | 61 | Filipino | Director |
| William Ang | 67 | Filipino | Director |
| David Ng* | 56 | Filipino | Director |
| Jose Ma. S. Lopez | 73 | Filipino | Director |
| Jesus Jalandoni | 60 | Filipino | Director |
| Daniel Maramba | 45 | Filipino | Director |
| Jose A. Feria Jr.* | 69 | Filipino | Director |

* Independent Director

The Senior Management of the Company is as follows:

| Name | Age | Citizenship | Position |
|---|---|---|---|
| William Carlos Uy | 76 | Filipino | President |
| Sandra Uy | 41 | Filipino | Senior Vice President – Operation |
| Vicente Vargas | 61 | Filipino | Corporate Secretary |
| Jose Ma. Lopez | 73 | Filipino | Senior Vice President & Treasurer |

Following is a brief description of the respective backgrounds of the Company's directors and senior management, who have all been nominated for another term, their respective ages and involvement in other businesses for the past five (5) years:

William Carlos Uy. 76 years old. He serves as the President and director of the Company. He is presently the President of Parity Values, Inc. and UPCC Securities Corporation. He also serves as the Vice Chairman of UPCC Holdings Corporation and a director of CCC Insurance Corporation.

John Carlos Uy. 67 years old. He is a director of the Company. He also serves as a director and the general manager of Parity Values, Inc., one of the stockholders of the Company.

Vicente Vargas. 61 years old. He is a director and Corporate Secretary of the Company. He is also the President of JM Brenton Industries, Inc., JM Processing & Freezing Services, Inc., JM Cold Storage, Inc., JM Kool Corporation. He also serves as the Executive Vice-President and Chief Operating Officer of JM & Company, Inc. and Treasurer of McJola, Inc. and L&J Agricultural, Inc.

William L. Ang. 67 years old. He is a director of the Company. Mr. Ang holds the position of First Vice-President and Treasurer of Parity Values, Inc. He is also a stockholder and Treasurer of Trade Demands Corporation.

Jose Ma. S. Lopez. 73 years old. He is a director and Senior Vice President for Corporate Planning of the Company. Likewise, He is a director in other corporations including: Agchem Manufacturing Corporation, Liberty Commodities Corporation and CCC Insurance Corporation. He is also presently the Senior Vice-President for Lopez Sugar Corporation.

David Ng, 56 years old. He is a director of the Company. He is presently holding the President of Merlin Mining Corporation, Sandalfold Estate Development Corporation and Lucky Jade Corporation. He is also the General Manager of New RTC International Co., Inc., Administrator of Logic Pacific, Inc. and Partner of CNP Architects.

Jesus S. Jalandoni, Jr. 60 years old. He is the Managing Director of Alegria Development Corporation; President of LFM Properties Corp.; Managing Director of Premium Wine Exchange; President of Valueline Realty & Development Corp. Executive Vice-President and Treasurer of Enterprise Leasing Corporation; Vice-President of Kanlaon Development Corp.; Vice-President of Kanlaon Farms, Inc.; Vice-President of Jayjay Realty Corporation; Director of JM Processing and Freezing Corp.; and Director of Personal Computer Specialist, Inc.

Sandra Uy, 41 years old. She serves as a director and Senior Vice-President of the Company.

Jose A. Feria, Jr., 69 years old. He is the Senior Partner of Feria Tantoco Daos Law Offices. Atty. Feria is the Chairman of Cyan Management Corporation, Directories Philippines Corporation, MG Exeo Network, Inc., Premiere Travel and Tours, Inc., Padre Burgos Realty, Inc. Spencer Food Corporation, Vinnel Belvoir Corporation. He also serves as director of EYP.PH Corporation, Assessment Analytics, Inc. Macawiwili Gold Mining & Development Corporation and Corporate Secretary of Aero Asia, Inc. and Air Asia, Inc., Gawad Kalinga Foundation, Inc. and PinoyMe Foundation, Inc.

Independent Directors

The Nominations Committee of the Company, which was constituted in accordance with the Company's Manual on Corporate Governance, pre-screens and shortlists all candidates in accordance with the said Manual on Corporate Governance. In a meeting of the Nominations Committee of the Company on 31 May 2017, Mr. William Carlos Uy nominated Mr. David Ng and Atty. Jose A. Feria, Jr. to be the Company's independent directors for the ensuing corporate year.

Other than as stated above, no new persons were named and nominated to be the Company's independent directors for the ensuing corporate year.

The members of the Company's Nomination Committee are: Mr. Jose A. Feria Jr., Mr. Vincente Vargas and Mr. John Carlos Uy, with Mr. Jose A. Feria Jr. as Chairman.

On the other hand, the members of the Company's Audit Committee are: David Ng as Chairman and Jose Jalandoni and Jose A. Feria, Jr. as members.

**Significant Employees**

Other than the persons named above, the Company does not expect any other person to make a significant contribution to the business of the Company.

**Family Relationships**

William Carlos Uy and John Carlos Uy are brothers. Likewise, Benjamin Jalandoni and Jesus Jalandoni Jr are brothers. Jose Jalandoni, Jesus Jalandoni Jr., Jose Ma. S. Lopez and Vincent Vargas are first cousins. Sandra Uy is the daughter of William Carlos Uy and John Carlos Uy is the niece of William Carlos Uy.

Other than the above, the Company is not aware of any family relationships among the directors, senior management or persons nominated or chosen by the Company to become directors or senior managers.

**Certain Relationships and Related Transactions**

Some of the directors of the Company are also directors and stockholders of the different distributors of the different brands of flour of the Company. All transactions, however, between the Company and the distributors are at arm's length and above board.

## SECURITY HOLDERS

As of 31 March 2018, there are 424 holders of common shares of stocks of the Company.

The top 20 stockholders of the Company as of 31 March 2018 are as follows:

| | Name of Stockholder | Number of Shares held | Percentage |
|---|---|---|---|
| 1.) | Parity Values, Inc. | 60,878,835 | 40.58% |
| 2.) | PCD Nominee Corp. | 29,066,738 | 19.37% |
| 3.) | William Carlos Uy | 12,561,556 | 8.37% |
| 4.) | Bacsay Management Corporation | 5,589,742 | 3.72% |
| 5.) | Sebring Management Corporation | 3,122,102 | 2.08% |
| 6.) | E.K.I Tourist Development Corporation | 2,855,505 | 1.90% |
| 7.) | Ganet Management Corporporation | 2,495,808 | 1.66% |
| 8.) | L & J Agricultural, Inc. | 2,417,841 | 1.61% |
| 9.) | Nellie C. Delgado | 1,424,301 | 0.94% |
| 10.) | Jose Moreno, Jr. | 928,277 | 0.61% |
| 11.) | Eduardo S. Lopez Jr. | 915,468 | 0.61% |
| 12.) | Amelia Kalaw Pulmones | 913,613 | 0.60% |
| 13.) | Carvina Farms, Inc. | 769,920 | 0.51% |
| 14.) | Paula K. Feria | 742,488 | 0.49% |
| 15.) | Erwin M. Fajardo | 697,337 | 0.46% |
| 16.) | Regina Kalaw | 628,116 | 0.41% |
| 17.) | Jose Yu Ping Kun | 627,621 | 0.41% |
| 18.) | Jose Maria S. Lopez | 624,465 | 0.41% |
| 19.) | Philip Hsu | 602,405 | 0.40% |
| 20.) | Anna J. Davis | 563,213 | 0.37% |

## MARKET FOR COMPANY'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The shares of the Company consist solely of common shares which are presently listed and traded in the Philippine Stock Exchange. The high and low sales prices for the shares of the Company for each quarter within the last two fiscal years are as follows:

| 2018 | High | Low |
|---|---|---|
| First Quarter | 52.55 | 52.55 |
| **2017** | **High** | **Low** |
| First Quarter | 73.10 | 70.10 |
| Second Quarter | 64.00 | 62.00 |
| Third Quarter | 57.05 | 57.05 |
| Fourth Quarter | 58.55 | 58.55 |
| **2016** | **High** | **Low** |
| First Quarter | 36.00 | 30.80 |
| Second Quarter | 32.20 | 32.20 |
| Third Quarter | 59.95 | 54.00 |
| Fourth Quarter | 74.95 | 74.95 |

Dividends

The average dividend per share of the Company was ₱.75 in 2017, ₱1.50 in 2016, and ₱1.00 in 2015.

The following table contains information regarding the dividend declaration and distribution on the common stock of the Company for the years 2017, 2016, and 2015.

| | Dividend Type | Record Date | Rate | Amount (PhP) |
|---|---|---|---|---|
| For 2017 | Cash | 7 April 2017 | 7.5% | 112,500,000.00 |
| For 2016 | Cash | 11 March 2016 | 15% | 225,000,000.00 |
| For 2015 | Stock | 8 December 2015 | 71.42% | 625,000,000.00 |
| | Cash | 15 October 2015 | 10% | 87,498,921.00 |
| | Cash | 10 June 2015 | 10% | 87,498,921.00 |

Below is the schedule of Retained Earnings available for Dividend Declaration:

| | |
|---|---|
| Unappropriated retained earnings, beginning | ₱1,239,042,985 |
| Less: Fair Value gain on financial assets at FVPL | (26,863,526) |
| | |
| | |
| Unappropriated retained earnings, as adjusted to available for dividend distribution, beginning | 1,212,179,459 |
| | |
| Add net income actually earned/realized during the year: | |
| Net income during the year closed to retained earnings | 83,055,265 |

| | |
|---|---|
| Less: Fair Value gain on financial assets at FVPL | - |
| Deferred income tax asset recognized in profit or loss | 3,920,372 |
| | |
| Net income actually earned/realized during the year | 86,975,637 |
| | |
| Add (Less): | |
| Cash dividend declaration during the year | (112,500,000) |
| Stock dividend declaration during the year | |
| Stock issuance cost | |
| Reversal of appropriations | |
| | |
| | |
| Total retained earnings available for dividend declaration, end | ₱1,186,655,096 |

Recent Sales of Unregistered or Exempt Securities, including Recent Issuance of Securities Constituting an Exempt Transaction

The Company has not sold any securities, whether unregistered or exempt or any issuance constituting an exempt transaction under the Revised Securities Act (RSA) or the Securities Regulation Code (SRC), during the past three (3) years.

## COMPLIANCE WITH LEADING PRACTICES ON CORPORATE GOVERNANCE

The Company continues to abide by the duly adopted Manual on Corporate Governance of the Company (the "*Manual*") and the Code of Corporate Governance promulgated by the Securities and Exchange Commission. Pursuant thereto, the Company appointed Mr. Jose S. Jalandoni as the Compliance Officer of the Company to ensure the Company's adherence to corporate principles and best practices and monitor compliance with the provisions and requirements of the Manual.

In addition to the Audit Committee composed of David Ng as Chairman and Jose Jalandoni and Jose A. Feria Jr. as members, the Company also constituted its Nomination Committee and appointed Jose A. Feria Jr. as its Chairman with Vicente Vargas and John Carlos Uy as members. The Company also created its Compensation and Remuneration Committee composed of David Ng as Chairman and Jose Ma. Lopez and William Ang as members.

There have been no deviations for the past year from the Company's Manual of Corporate Governance.

The Company continuously reviews and evaluates its Manual in order to ensure that the Company's practices are compliant with leading practices on good corporate governance.

**UPON WRITTEN REQUEST OF A STOCKHOLDER, THE COMPANY UNDERTAKES TO FURNISH SAID STOCKHOLDER A COPY OF THE COMPANY'S ANNUAL REPORT ON SEC FORM 17-A FREE OF CHARGE. SUCH WRITTEN REQUEST SHOULD BE DIRECTED TO ATTY. JAN MARI D. ADAN, 8TH FLOOR, DPC PLACE, 2322 CHINO ROCES AVENUE, MAKATI CITY.**

| | December 31, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Mill Machinery and Equipment | Building and Building Equipment | Transportation Equipment | Land and Land Improvements | Other Equipment | Total |
| **Cost** | | | | | | |
| Beginning balances | ₱206,692,687 | ₱114,267,918 | ₱46,356,930 | ₱25,019,723 | ₱29,954,166 | ₱422,291,424 |
| Additions | 3,307,194 | – | – | – | 506,291 | 3,813,485 |
| Ending balances | 209,999,881 | 114,267,918 | 46,356,930 | 25,019,723 | 30,460,457 | 426,104,909 |
| **Accumulated Depreciation and Amortization** | | | | | | |
| Beginning balances | 186,577,248 | 78,024,106 | 34,794,482 | 11,171,620 | 22,175,904 | 332,743,360 |
| Depreciation and amortization (see Notes 15 and 16) | 6,406,860 | 3,887,252 | 3,291,616 | 1,124,930 | 1,394,320 | 16,104,978 |
| Ending balances | 192,984,108 | 81,911,358 | 38,086,098 | 12,296,550 | 23,570,224 | 348,848,338 |
| **Net Book Values** | ₱17,015,773 | ₱32,356,560 | ₱8,270,832 | ₱12,723,173 | ₱6,890,233 | ₱77,256,571 |

The aggregate cost of fully depreciated property and equipment that are still being used in operations amounted to ₱49.22 million and ₱39.47 million as of December 31, 2017 and 2016, respectively.

## 13. Accounts Payable and Other Current Liabilities

| | **2017** | 2016 |
|---|---|---|
| Liabilities under trust receipts (see Note 7) | **₱59,178,815** | ₱– |
| Dividends payable (see Note 14) | **28,720,661** | 9,884,260 |
| Customers and tenants deposits | **11,910,165** | 11,695,183 |
| Accounts payable | **10,352,007** | 18,557,546 |
| Output VAT - net | **6,509,975** | 6,037,512 |
| Accrued selling, freight and outside services | **3,399,609** | 4,380,342 |
| Withholding tax, HDMF and SSS payable | **2,168,056** | 1,497,598 |
| Accrued liabilities - inventory in-transit (see Note 7) | – | 35,427,383 |
| Retirement payable | – | 8,316,743 |
| Accrued other expenses | **6,591,724** | 4,549,878 |
| | **₱128,831,012** | ₱100,346,445 |

Accounts payable are noninterest-bearing and normally have payment of 30 to 60 days.

Customer and tenants deposits represents advances and deposits that are applied against subsequent deliveries and rentals, thus, are generally outstanding for less than 30 days from initial recognition.

Accrued selling and freight expenses represents unbilled freight cost incurred for deliveries made by third party service providers.

Retirement payable are payments to retired employees during the year that will be settled within the next financial year.

Accrued other expenses are unbilled services that will be settled within the next financial year.

## 14. Equity

Capital Stock

The Company's capital stock as of December 31, 2017 and 2016 follows:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | **No. of Shares** | **Amount** | No. of shares | Amount |
| Authorized capital stock - ₱10 par value | **200,000,000** | **₱2.00 billion** | 200,000,000 | ₱2.00 billion |
| Issued and outstanding: | **150,000,000** | **₱1.50 billion** | 150,000,000 | ₱1.50 billion |

Issued and outstanding shares as at December 31, 2017 and 2016 are held by 451 and 457 equity holders, respectively.

The Company's incorporation papers were filed with the SEC on December 18, 1958. The corporation was capitalized at ₱4.00 million divided into 240,000 common shares with par value at ₱10.00 each and 160,000 preferred shares also with a par value of ₱10.00 each.

The BOD has placed in the market the total share of stock provided in the incorporation, and made the following calls:

| | Original Stockholders | New Subscription | Amount Due |
|---|---|---|---|
| December 31, 1958 | 25% common shares | | ₱600,000 |
| November 30, 1959 | 4% common shares | | 100,000 |
| December 31, 1959 | | 17% common shares | 400,000 |
| February 29, 1960 | | 25% preferred shares | 400,000 |
| April 30, 1960 | | 25% preferred shares | 400,000 |
| June 30, 1960 | | 25% preferred shares | 400,000 |
| August 31, 1960 | 4% common shares | 25% preferred shares | 500,000 |
| October 31, 1960 | | 25% common shares | 600,000 |
| December 31, 1960 | | 25% common shares | 600,000 |
| | | | ₱4,000,000 |

In 1962, the Company issued 20% common stock dividend. Consequently, the Company increased the authorized capital stock with the approval of the SEC to ₱4.40 million of common shares and ₱2.00 million of preferred shares.

On September 24, 1965, the stockholders authorized the increase in the common stock of the corporation from ₱4.40 million divided into 440,000 common shares with par value of ₱10.00 per share to ₱7.6 million divided into 760,000 common shares with par value of ₱10.00 each. In the same meeting, the stockholders resolved to declare and issue a 20% stock dividend to common stockholders of record as of September 1, 1965. This stock dividend declaration involved the issuance of 83,951 common shares, with a total par value of ₱839,510, under the following terms:

a) that the 19,951 shares with a par value of ₱199,510 are to be issued out of the remaining unissued common stock presently authorized; and
b) that 64,000 shares with a par value of ₱640,000 are to be issued out of the increase in the common stock of 320,000 common shares.

In April 1966, the Company paid out 20% stock dividends and in November 1966, the Company paid out again 10% stock dividends.

On March 17, 1966, the SEC approved the increase in the common stock to ₱9.6 million divided in 960,000 common shares from ₱9.6 million divided into 760,000 common shares as authorized by the stockholders last September 24, 1965.

On March 19, 1968, the stockholders approved the increase of authorized capital stock from ₱9.6 million to ₱12.00 million to be divided into 1.20 million shares with a par value of ₱10.00 each to wit:

| | | |
|---|---|---|
| Common stock | 1,000,000 shares | ₱10,000,000 |
| Preferred stock | 200,000 shares | 2,000,000 |

The application for the proposed increase in the Company's capitalization was approved by the SEC in November 1968.

In 1970, the Company declared 17.64% stock dividends on common shares amounting to ₱1,499,620 (149,833 shares and ₱1,290 in cash for fractional shares).

In 1971, the Company redeemed the outstanding preferred shares represented by 160,049 preferred shares.

On May 4, 1972, the stockholders approved to eliminate and retire all the 200,000 preferred shares with a par value of ₱10.00 each, thereby, decreasing its capital stock from ₱12.00 million to ₱10.00 million and to create 1,000,000 more common shares at a par value of ₱10.00 each thereby increasing the capital stock of the corporation from ₱10.00 million to ₱20.00 million to be divided into 2.00 million common shares at a par value of ₱10.00 per share. In relation to such an increase, the stockholders declared stock dividend of 20% on the issued and outstanding shares of ₱10.00 million. On October 6, 1972, the SEC approved the application for the retirement of its preferred shares and the increase of its common shares.

On May 6, 1977, the stockholders approved a resolution to increase the capital stock from ₱20.00 million (2.00 million shares at ₱10.00 par value) to ₱30.00 million (3.00 million shares at ₱10.00 par value) and that subscription to the capital stock increase in the amount of ₱2.00 million shall be paid through stock dividend. In December 1977, the SEC approved the registration of the capital stock increase and stock dividend declaration.

On February 9, 1981, the SEC approved the Company's application for the registration of its increase in authorized capital stock from ₱30.00 million (3.00 million shares at ₱10.00 par value) to ₱50.00 million (5.00 million shares at ₱10.00 par value). Capital base went up from ₱30.00 million to ₱40.25 million due to the ₱10.25 million given as stock dividend.

In 1982, the Company distributed ₱9.75 million stock dividend to complete the outstanding capital stock to the full ₱50.00 million which is also the authorized capitalization.

On November 9, 1983, the stockholders approved the increase in authorized capital stock from ₱50.00 million (5.00 million shares at ₱10.00 par value) to ₱100.00 million (10.00 million shares at ₱10.00 par value) and the declaration of a 25% stock dividend or an equivalent sum of ₱12.50 million on such increase to stockholders of record as of November 9, 1983. The increase in authorized capital stock and stock dividend declaration was approved by the SEC on May 4, 1984.

On June 10, 1985, a 10% stock dividend was declared to stockholders of record as of May 10, 1985. The weighted average shares outstanding and all per share amounts included in the financial statements are based on the increased number of shares giving retroactive effect to these stock dividends.

On February 21, 1985, the Makati Stock Exchange approved the listing of 10.00 million common shares of the Company's capital stock which are duly registered with the SEC.

On May 9, 1986, a stock dividend of 21.212% was declared to stockholders of record as of May 28, 1986. The weighted average shares outstanding and all per share amounts included in the financial statements are based on the increased number of shares giving retroactive effect to these stock dividend.

On January 12, 1987, the stockholders approved to increase the authorized capital stock from ₱100.00 million to ₱200.00 million; and the declaration of 25% stock dividend to stockholders of record as of February 11, 1987 to cover subscription to the said capital stock increase. On June 30, 1987, the SEC approved the application for such increase.

In February 1988, the SEC, for registration and licensing purposes with the Philippine Stock Exchange, issued to the Company a Certificate of permit to sell securities which authorizes the sale of the said capital stock increase of 10.00 million common shares worth ₱100.00 million to the public.

On April 12, 1988, a stock dividend of 40% was declared to stockholders of record as of May 26, 1988.

On May 10, 1989, the stockholders declared a stock dividend of 14.2857% to stockholders of record as of May 29, 1989. On the same date, the stockholders subsequently approved to increase the authorized capital stock from ₱200.00 million to ₱500.00 million which was approved by the SEC on September 4, 1989.

On May 10, 1991, a 10% stock dividend was declared to stockholders of record as of July 26, 1991.

On May 14, 1993, a 20% stock dividend was declared to stockholders of record as of June 12, 1993.

On May 9, 1997, the BOD approved the declaration of stock dividends of 3.70 million common shares equivalent to 10.1928% to stockholders of record as of June 6, 1997. Consequently, the number of common shares outstanding was increased from 36.30 million shares to 40.00 million common shares.

On July 27, 2011, the BOD declared a 25% stock dividend equivalent to 10.00 million shares amounting to ₱100.00 million with ₱10.00 par value to stockholders of record as of September 15, 2011. The stock certificates were issued and distributed on February 20, 2012.

On January 13, 2015, the SEC approved the issuance of the stock dividend to stockholders of record as of January 30, 2015. The stock certificates were issued and distributed to the stockholders on February 23, 2015. Accordingly, stock dividends distributable amounting to ₱375.00 million recognized as of December 31, 2014 was derecognized in 2015.

On November 16, 2015, the BOD declared 71.42% stock dividend or 62.50 million shares to be taken from the reversal of ₱1.82 billion appropriated retained earnings as of December 31, 2014. On December 15, 2015, the SEC approved the issuance of the stock dividend. The stock certificates were issued and distributed to the stockholders on December 21, 2015.

Basic/Diluted Earnings Per Share

The computation of basic/diluted earnings per share is as follows:

| | **2017** | 2016 |
|---|---|---|
| Net income | **₱83,055,265** | ₱255,718,832 |
| Divided by weighted average number of shares | **150,000,000** | 150,000,000 |
| Basic/diluted earnings per share | **₱0.55** | ₱1.70 |

The Company does not have potentially dilutive common shares as of December 31, 2017.

Cash Dividend Declarations

Below is the summary of dividends declared for the years ended 2017 and 2016:

| Date of Declaration | Date of Record | Date of payment | Dividend per share | Total amount |
|---|---|---|---|---|
| February 24, 2016 | March 11, 2016 | March 21, 2016 | ₱1.50 | ₱225,000,000 |
| March 22, 2017 | April 07, 2017 | April 21, 2017 | ₱0.75 | ₱112,500,000 |

Events after Reporting Period

On March 21, 2018, the BOD approved the declaration of cash dividend in the amount of ₱0.50 per share to stockholders of record as of April 06, 2018 payable on April 30, 2018.

## 15. Cost of Sales

| | 2017 | 2016 |
|---|---|---|
| Materials used | **₱457,162,790** | ₱542,175,063 |
| Direct labor (see Note 17) | **52,099,199** | 55,309,149 |
| Overhead: | | |
| Utilities | **29,410,360** | 33,724,472 |
| Depreciation (see Note 12) | **8,665,901** | 9,065,882 |
| Repairs and maintenance | **3,614,695** | 6,255,180 |
| Other factory overhead | **6,403,539** | 6,123,171 |
| | **₱557,356,484** | ₱652,652,917 |

## 16. Operating Expenses

Administrative

| | 2017 | 2016 |
|---|---|---|
| Employee benefits and bonuses (see Notes 17 and 19) | **₱46,707,429** | ₱55,532,874 |
| Salaries and wages (see Note 17) | **22,042,983** | 21,319,330 |
| Outside services | **14,813,842** | 13,702,127 |
| Taxes and licenses (see Note 11) | **7,348,676** | 4,139,307 |
| Depreciation and amortization (see Note 12) | **4,780,975** | 5,199,707 |
| Port leasing fees | **3,085,415** | 2,890,190 |
| Travel and representation | **2,350,099** | 4,785,814 |
| Donations and contribution | **1,807,466** | 1,683,003 |
| Insurance | **1,677,400** | 1,572,427 |
| Membership and subscription | **6,316,952** | 5,519,984 |
| Communication, light and water | **1,303,295** | 1,196,530 |
| Office supplies | **1,117,919** | 981,317 |
| Per diem | **765,000** | 530,000 |
| Repairs and maintenance | **286,185** | 352,293 |
| Others | **3,546,906** | 5,656,665 |
| | **₱117,950,542** | ₱125,061,568 |

Selling

| | 2017 | 2016 |
|---|---|---|
| Promotional and marketing expenses (see Note 22) | **₱33,022,900** | ₱36,039,400 |
| Depreciation (see Note 12) | **1,719,012** | 1,839,389 |
| Freight | **1,156,755** | 2,233,227 |
| | **₱35,898,667** | ₱40,112,016 |

## 17. Personnel Costs

| | 2017 | 2016 |
|---|---|---|
| Direct labor (see Note 15) | **₱52,099,199** | ₱55,309,149 |
| Bonus and allowances (see Note 16) | **29,656,621** | 36,933,595 |
| Salaries and wages (see Note 16) | **22,042,983** | 21,319,330 |
| Retirement benefits costs (see Notes 16 and 19) | **12,880,307** | 15,289,632 |
| Other employee benefits (see Note 16) | **4,170,501** | 3,309,647 |
| | **₱120,849,611** | ₱132,161,353 |

## 18. Other Income (Charges) - Net

| | 2017 | 2016 |
|---|---|---|
| Gain on sale of available-for-sale investments (see Note 10) | **₱1,514,450** | ₱4,186,517 |
| Fair value gain (loss) on financial assets at fair value through profit or loss (see Note 6) | **(201,688)** | 1,004,551 |
| Other income (charges) - net | **(3,652,165)** | 1,558,644 |
| | **(₱2,339,403)** | ₱6,749,712 |

Others include provision for losses and other miscellaneous income and expenses.

## 19. Retirement Benefits Costs

The Company has a non-contributory defined benefit retirement plan covering its regular employees.

Under the terms of the Collective Bargaining Agreement (CBA), the Company is required to pay its regular employees retirement benefits equivalent to 30 days for every year of credited service upon reaching the compulsory retirement age of 65. Optional retirement is allowed for an employee who reaches the age of 50 and who has completed 20 years of credited service to the Company.

The Retirement Plan Committee is responsible for the general admission of the Retirement Plan and the management of the retirement fund. The Retirement Plan Committee may seek the advice of counsel and appoint an investment manager or managers to the retirement fund, an independent accountant to audit the fund and an actuary to value the fund.

Changes in net retirement plan liability as at December 31, 2017 and 2016 follows:

| | | Net Retirement Cost in Statement of comprehensive income | | | | Remeasurements in Other Comprehensive Income | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Balance at Beginning of Year | Current Service Cost | Net Interest | Subtotal | Benefits Directly Paid by the Company | Actuarial Loss Excluding Amount included in Net Interest | Actuarial Changes Arising from Changes in Financial Assumptions | Actuarial Changes Arising from Experience | Subtotal | Balance at End of Year |
| **December 31, 2017** | | | | | | | | | | |
| Present value of defined benefit obligation | ₱135,672,374 | ₱7,148,108 | ₱7,156,259 | ₱14,304,367 | (₱17,631,472) | ₱– | (₱2,162,401) | (₱10,726,775) | (₱12,889,176) | ₱119,456,093 |
| Fair value of plan assets | 28,653,117 | – | 1,424,060 | 1,424,060 | – | (6,194,570) | – | – | (6,194,570) | 23,882,607 |
| Net defined benefit liability | ₱107,019,257 | ₱7,148,108 | ₱5,732,199 | ₱12,880,307 | (₱17,631,472) | 6,194,570 | (₱2,162,401) | (₱10,726,775) | (₱6,694,606) | ₱95,573,486 |
| **December 31, 2016** | | | | | | | | | | |
| Present value of defined benefit obligation | ₱159,531,077 | ₱8,747,871 | ₱7,290.570 | ₱16,038,441 | (₱24,526,294) | – | (₱1,514,600) | (₱13,856,250) | (₱15,370,850) | ₱135,672,374 |
| Fair value of plan assets | 16,385,325 | – | 748,809 | 748,809 | – | 11,518,983 | – | – | 11,518,983 | 28,653,117 |
| Net defined benefit liability | ₱143,145,752 | ₱8,747,871 | ₱6,541,761 | ₱15,289,632 | (₱24,526,294) | (₱11,518,983) | (₱1,514,600) | (₱13,856,250) | (₱26,889,833) | ₱107,019,257 |

The Company is expected to contribute ₱16.73 million to its defined benefit pension plan in 2018.

The overall expected rate of return used to determine present value of defined benefit obligation and fair value of plan assets is based on the prevailing rate of return on government securities applicable to the period over which the obligation is to be settled.

The composition of the plan assets follows:

| | 2017 | 2016 |
|---|---|---|
| Cash in banks | ₱6,163,527 | ₱4,920,134 |
| Receivables | 711,554 | 678,028 |
| Investments in equity securities: | | |
| Industrial | 19,647,246 | 25,405,213 |
| Mining and oil | 1,782,112 | 2,246,375 |
| Services | 1,704,000 | 1,755,000 |
| Others | 1,101,258 | 875,457 |
| Liabilities (see Note 22) | (7,227,090) | (7,227,090) |
| | ₱23,882,607 | ₱28,653,117 |

The carrying amount of the Company's plan assets represents their fair value as of December 31, 2017 and 2016.

Investments in equity securities can be transacted through the Philippine Stock Exchange. The plan assets include shares of stock of the Company with fair value of ₱14.03 million and ₱17.81 million as of December 31, 2017 and 2016, respectively. Fair value gains recognized by the retirement plan assets for the changes in market values of the shares of stock of the Company amounted to ₱3.79 million loss in 2017 and ₱11.64 million gain 2016. With respect to the plan's investment in the Company's shares of stock:

a. There are no restrictions or limitations on the shares provided in the plan.

b. The Board of Trustees exercises voting rights over the shares.

c. The gain or loss recognized by the plan over the shares for the years was not material in 2017 but material in 2016.

The latest actuarial valuation of the Company's plan is as of December 31, 2017. The principal actuarial assumptions used to determine retirement benefits costs as of January 1 are as follows:

| | 2017 | 2016 |
|---|---|---|
| Annual rates: | | |
| Discount rate | 5.62% | 4.97% |
| Future salary increases | 5.00% | 5.00% |

The Retirement Plan Committee has no specific matching strategies between the plan assets and the plan liabilities.

Movements in the principal actuarial assumptions may result in an increase or decrease in the year-end defined benefit obligation (DBO). As such, the following sensitivity analysis shows the effects of movement in the discount and salary increase rates as of December 31, 2017 and 2016.

| | **2017** | |
|---|---|---|
| | **Increase (Decrease) in Rate** | **Increase (Decrease) in DBO** |
| Discount rate | **0.5%** | **(₱1,479,548)** |
| | **(0.5%)** | **1,637,574** |
| Salary increase rate | **1.0%** | **3,336,324** |
| | **(1.0%)** | **(2,786,299)** |

| | 2016 | |
|---|---|---|
| | Increase (Decrease) in Rate | Increase (Decrease) in DBO |
| Discount rate | 0.5% | (₱1,725,331) |
| | (0.5%) | 1,913,350 |
| Salary increase rate | 1.0% | 3,877,483 |
| | (1.0%) | (3,229,805) |

The table below shows the payments that are to be made in the future years out of the defined benefit obligation as of December 31:

| Year | **2017** | 2016 |
|---|---|---|
| One year and less | **₱26,029,852** | ₱34,818,750 |
| More than one year to five years | **18,968,616** | 24,551,178 |
| More than five years to 10 years | **58,504,434** | 56,266,507 |
| More than 10 years to 15 years | **80,681,425** | 91,608,804 |
| More than 15 years to 20 years | **71,944,832** | 66,092,725 |
| More than 20 years | **199,785,090** | 173,567,075 |

The average duration of the defined benefit obligation at the end of the period is 17 years in 2017 and 16 years in 2016.

Other Comprehensive Income

Movements in remeasurement losses (gains) on retirement benefits recognized in "other components of equity" under the equity section of statement of financial position follows:

| | **2017** | 2016 |
|---|---|---|
| Beginning balance | **₱6,108,296** | ₱35,615,970 |
| Remeasurement gains in other comprehensive income: | | |
| Actuarial gain on defined benefit obligation | **(12,889,176)** | (15,370,850) |
| Remeasurement loss (gain) on plan assets | **6,194,570** | (11,518,983) |
| Total | **(6,694,606)** | (26,889,833) |
| Income tax effect | **2,008,382** | (2,617,841) |
| | **(4,686,224)** | (29,507,674) |
| Ending balance | **₱1,422,072** | ₱6,108,296 |

## 20. Provisions and Contingencies

a. Application for Exemption of Properties from Republic Act (R.A.) 6657

In 2015, the Company submitted with the Department of Agrarian Reform (DAR) its Application for Exemption from Comprehensive Agrarian Reform Program (CARP), also known as R.A. 6657, for its land property. The Application for Exemption was partially granted in 2016. In August 2016, the Company filed a Motion for Partial Reconsideration on the remaining hectares of the said land property with a carrying value of ₱1.03 million. As of December 31, 2017, the appeal is still under review of the DAR.

b. Tax Assessments

As discussed in Note 3, the Company is currently involved in certain tax assessments occurring in the ordinary course of business.

In consultation with the Company's legal counsels, management believes that the ultimate disposition of the above matters will not have any material adverse effect on the Company's operations or its financial condition.

No further details were provided as allowed under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, because these may prejudice the Company's position in relation to this ongoing claim and assessments.

## 21. Income Taxes

Current Income Tax

The reconciliation of the provision for income tax computed at the statutory income tax rate with the provision for income tax as shown in the parent company statements of comprehensive income is as follows:

| | **2017** | 2016 |
|---|---|---|
| Income before tax at 30% | **₱29,034,672** | ₱82,732,640 |
| Additions to (reductions in) income tax resulting from: | | |
| Dividend income | **(8,345,690)** | (36,946,908) |
| Interest income subjected to final tax | **(7,972,238)** | (8,220,797) |
| Nondeductible expenses | **2,229,705** | 1,055,460 |
| Fair value changes of financial assets at FVPL | **60,506** | (301,365) |
| Movement in unrecognized deferred income tax | **(1,279,979)** | (32,312,635) |
| Difference between OSD and itemized deductions | **–** | 14,050,241 |
| Provision for income tax | **₱13,726,976** | ₱20,056,636 |

Deferred Income Tax

The Company's deferred tax assets (liabilities) as of December 31 follows:

| | 2017 | 2016 |
|---|---|---|
| Deferred tax assets: | | |
| Net retirement plan liability | **₱28,672,046** | ₱34,600,800 |
| Allowance for doubtful accounts | **329,676** | 329,676 |
| | **29,001,722** | 34,930,476 |
| Deferred tax liability - Accrued rent | **(28,514)** | (211,165) |
| Net deferred tax asset | **₱28,973,208** | ₱34,719,311 |

As of December 31, 2016, the Company recognized deferred income tax assets on net retirement liability and allowance for doubtful accounts since management expects that there will be sufficient taxable income in the future against which these deferred tax assets can be utilized using itemized deduction in computing for taxable income effective first quarter of 2017.

Deferred income tax assets for the following deductible temporary differences have not been recognized as of December 31, 2017 and 2016:

| | 2017 | 2016 |
|---|---|---|
| Unrecognized past service cost | **₱4,554,031** | ₱5,834,009 |
| Provision for probable losses | **1,678,301** | 750,000 |
| | **₱6,232,332** | ₱6,584,009 |

The Company did not recognize deferred income tax asset on such deductible temporary differences as management assessed that there will be no sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized.

Republic Act (RA) No.10963 or the Tax Reform for Acceleration and Inclusion Act (TRAIN) was signed into law on December 19, 2017 and took effect January 1, 2018, making the new tax law enacted as of the reporting date. Although the TRAIN changes existing tax law and includes several provisions that will generally affect businesses on a prospective basis, the management assessed that the same will not have any significant impact on the parent company financial statement balances as of the reporting date.

## 22. Related Party Transactions

Related party relationship exists when the party has the ability to control directly or indirectly, through one or more intermediaries or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting entity and its key management personnel, directors or stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationships, and not merely to the legal form.

Transactions with related parties for each of the years and their account balance as of December 31 follow:

| | Amount/Volume Income (Expense) 2017 | 2016 | Outstanding Balance Receivable (Payable) 2017 | 2016 | Terms and Conditions |
|---|---|---|---|---|---|
| ***Stockholder*** | | | | | |
| **Parity Values, Inc.** | | | | | |
| Sale | **₱457,689,094** | ₱580,241,068 | **₱431,213,267** | ₱454,136,772 | 120 days; Unsecured, not impaired |
| Rent income | **2,073,185** | 1,690,413 | **21,692** | 21,568 | 30 days; Unsecured, not impaired |
| Promotional and marketing expenses | **(30,600,000)** | (30,600,000) | **–** | – | On demand |
| ***Under Common Control*** | | | | | |
| **Liberty Commodities Corp.** | | | | | |
| Sale | **142,641,002** | 178,499,909 | **97,911,411** | 71,611,225 | 120 days; Unsecured, not impaired |
| Rent income | **2,669,836** | 2,282,320 | **100,396** | 452,265 | 30 days; Unsecured, not impaired |
| Promotional and marketing expenses | **(5,400,000)** | (5,400,000) | **–** | – | On demand |
| **Trade Demands Corp.** | | | | | |
| Sale | **137,152,257** | 160,186,529 | **175,014,247** | 194,519,319 | 120 days; Unsecured, not impaired |
| ***Subsidiaries*** | | | | | |
| **Liberty Properties Corporation** | | | | | |
| Rental income | **505,910** | 484,395 | **77,278** | 643,200 | 30 days; Unsecured, not impaired |
| **Liberty Engineering Corporation** | | | | | |
| Advances | **–** | 229,167 | **–** | 229,167 | On demand; Unsecured, not impaired |
| ***Other related parties*** | | | | | |
| **Officers and employees** | | | | | |
| Advances | **853,611** | 534,088 | **853,611** | 534,088 | On demand; Unsecured, not impaired |
| Trade receivables from related parties (see Note 5) | | | **₱704,138,925** | ₱720,267,316 | |
| Rent receivables from related parties (see Note 5) | | | **₱199,366** | ₱1,117,033 | |
| Advances to officers and employees (see Note 5) | | | **₱853,611** | ₱534,088 | |

Promotional and marketing expenses are amounts paid outright in cash to the related party distributors as the Company's support for their advertising and promotional activities.

Outstanding intercompany receivables at year-end are unsecured, interest-free and settlement occurs in cash. There have been no guarantees received for any related party receivables. There is no impairment on receivables relating to amounts owed by related parties for both years.

The Company also has a receivable from its retirement plan amounting to ₱7.23 million as of December 31, 2017 and 2016, which is recorded under "Receivables - others" account in the parent company statements of financial position. The members of the Retirement Plan Committee are directors or officers of the Company.

The key management personnel compensation are as follows:

| | 2017 | 2016 |
|---|---|---|
| Short-term employee benefits | **₱16,389,674** | ₱14,435,061 |
| Post-employment benefits and others (Note 19) | **35,825,407** | 23,967,778 |
| | **₱52,215,081** | ₱38,402,839 |

Short-term employee benefits include management bonus given to the Company's directors and officers (see Note 16 and 17).

## 23. Operating Leases

The Company leases out office spaces principally to third parties covering its investment properties under various operating lease arrangements. The leases are for a term of one to five years and may be renewed upon mutual agreement of the parties. The future minimum lease receivables under non-cancellable leases are as follows:

| | 2017 | 2016 |
|---|---|---|
| Within one year | **₱18,807,346** | ₱19,755,108 |
| Between one and five years | **20,561,324** | 29,793,822 |
| | **₱39,368,670** | ₱49,548,930 |

## 24. Financial Instruments and Financial Risk Management Objectives and Policies

The Company's principal financial instruments consist of cash and cash equivalents, financial assets at FVPL and AFS investments. The main purpose of these financial instruments is to fund the Company's operations. The other financial assets and financial liabilities arising directly from its operations are receivables and accounts payable and other current liabilities.

The main risks arising from the Company's financial instruments are credit risk, equity price risk and liquidity risk. The Company's exposure to foreign currency risk is minimal as this only relates to the Company's foreign currency-denominated cash in banks. The BOD reviews and approves policies for managing each of these risks.

Credit Risk
Credit risk represents the loss that the Company would incur if counterparty failed to perform under its contractual obligations. The Company has established controls and procedures in its credit policy to determine and monitor the credit worthiness of customers and counterparties. The Company is operating under a sound credit-granting process over its distributors. Credit monitoring process involves a weekly check over collections based on a benchmark.

The maximum credit exposure of the Company is the carrying amount of the receivables as disclosed in Note 5. The Company is also potentially subject to concentrations of credit risk in its accounts receivable. Approximately all of the Company's entire trade receivables and revenues are concentrated with its three distributors as of December 31, 2017 and 2016. The Company has been transacting business with these distributors for a long time and has not encountered any credit issue with them. While there is delay in collection of some trade receivables (those classified under "Past due but not impaired") the Company is in close coordination with the distributor to bring their accounts to current. With respect to credit risk arising from the other financial assets of the

Company, which comprise cash and cash equivalents, financial assets at FVPL and AFS investments, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. There are no collaterals or other credit enhancements held over these assets.

*Credit Risk Exposures.* The table below shows the maximum exposure to on- and off-balance sheet credit risk exposures of the Company, without considering the effects of collateral, credit enhancements and other credit risk mitigation techniques as at December 31:

| | **2017** | 2016 |
|---|---|---|
| Loans and receivables: | | |
| Cash and cash equivalents (excluding cash on hand) | **₱124,214,016** | ₱147,982,879 |
| Trade and other receivables - net | **717,840,488** | 731,803,328 |
| Financial assets at FVPL | **15,369,829** | 15,571,517 |
| AFS investments | **1,034,145,916** | 1,020,995,047 |
| | **₱1,891,570,249** | ₱1,916,352,771 |

The following tables summarize the credit quality of the Company's financial assets per category as of December 31, 2017 and 2016:

| | **December 31, 2017** | | | | | |
|---|---|---|---|---|---|---|
| | **Neither Past Due nor Impaired** | | | | | |
| | **High Grade** | **Standard Grade** | **Substandard Grade** | **Past Due but Not Impaired** | **Past Due and Impaired** | **Total** |
| Loans and receivables: | | | | | | |
| Cash and cash equivalents: | | | | | | |
| Cash in banks | **₱85,130,641** | **₱–** | **₱–** | **₱–** | **₱–** | **₱85,130,641** |
| Cash equivalents | **39,083,375** | **–** | **–** | **–** | **–** | **39,083,375** |
| Receivables: | | | | | | |
| Trade receivables from related parties | **324,845,724** | **–** | **–** | **379,293,201** | **–** | **704,138,925** |
| Rent receivables | | | | | | |
| Third parties | **1,271,493** | **–** | **–** | **1,060,909** | **–** | **2,332,402** |
| Related parties | **199,366** | **–** | **–** | **–** | **–** | **199,366** |
| Advances to officers and employees | **–** | **853,611** | **–** | **–** | **–** | **853,611** |
| Other receivables | **–** | **–** | **–** | **10,316,184** | **1,098,921** | **11,415,105** |
| Financial assets at FVPL | **15,369,829** | **–** | **–** | **–** | **–** | **15,369,829** |
| AFS investments: | | | | | | |
| Equity securities | **450,971,139** | **11,815,708** | **–** | **–** | **–** | **462,786,847** |
| Debt securities | **571,359,069** | **–** | **–** | **–** | **–** | **571,359,069** |
| Total | **₱1,488,230,636** | **₱12,669,319** | **₱–** | **₱390,670,294** | **₱1,098,921** | **₱1,892,669,170** |

| | December 31, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Neither Past Due nor Impaired | | | | | |
| | High Grade | Standard Grade | Substandard Grade | Past Due but Not Impaired | Past Due and Impaired | Total |
| Loans and receivables: | | | | | | |
| Cash and cash equivalents: | | | | | | |
| Cash in banks | ₱75,227,909 | ₱– | ₱– | ₱– | ₱– | ₱75,227,909 |
| Cash equivalents | 72,754,970 | – | – | – | – | 72,754,970 |
| Receivables: | | | | | | |
| Trade receivables from related parties | 325,767,319 | – | – | 394,499,997 | – | 720,267,316 |
| Rent receivables | | | | | | |
| Third parties | 1,820,798 | – | – | 476,279 | – | 2,297,077 |
| Related parties | 1,003,250 | – | – | 113,783 | – | 1,117,033 |
| Advances to officers and employees | – | 534,088 | – | – | – | 534,088 |
| Other receivables | – | – | – | 7,587,814 | 1,098,921 | 8,686,735 |
| Financial assets at FVPL | 15,571,517 | – | – | – | – | 15,571,517 |
| AFS investments: | | | | | | |
| Equity securities | 457,985,299 | 11,815,708 | – | – | – | 469,801,007 |
| Debt securities | 551,194,040 | – | – | – | – | 551,194,040 |
| Total | ₱1,501,325,102 | ₱12,349,796 | ₱– | ₱402,677,873 | ₱1,098,921 | ₱1,917,451,692 |

The credit quality of the financial assets was determined as follows:

*High Grade* - This includes cash and cash equivalents to counterparties with good credit or bank standing, thus credit risk is minimal. This normally includes large prime financial institutions, companies and government agencies. For receivables, this consists of counterparties with no history of default on the agreed contract terms. This includes receivable from credit-worthy customers and lessees.

*Standard Grade* - This includes FVPL and AFS investments that are not classified as "High Grade". For receivables, this consists of counterparties with little history of default on the agreed contract terms.

*Substandard Grade* - This includes receivables that consist of counterparties with history of default on the agreed contract terms.

Below is the aging analysis of "past due but not impaired" financial assets as of December 31:

| | 2017 | | | | |
|---|---|---|---|---|---|
| | **< 30 days** | **31-60 days** | **61-90 days** | **Over 90 days** | **Total** |
| Trade receivables from related parties | **₱66,994,557** | **₱67,068,599** | **₱69,098,113** | **₱176,131,932** | **₱379,293,201** |
| Rent receivable | **216,142** | **23,535** | **22,303** | **798,929** | **1,060,909** |
| Other receivables | **–** | **–** | **–** | **10,316,184** | **10,316,184** |
| | **₱67,210,699** | **₱67,092,134** | **₱69,120,416** | **₱187,247,045** | **₱390,670,294** |

| | 2016 | | | | |
|---|---|---|---|---|---|
| | < 30 days | 31-60 days | 61-90 days | Over 90 days | Total |
| Trade receivables from related parties | ₱82,335,874 | ₱75,154,568 | ₱74,831,971 | ₱162,177,584 | ₱394,499,997 |
| Rent receivable | – | 490,369 | 56,703 | 42,990 | 590,062 |
| Other receivables | 3,750 | 5,494 | – | 7,578,570 | 7,587,814 |
| | ₱8,239,624 | ₱75,650,431 | ₱74,888,674674 | ₱169,799,144 | ₱402,677,873 |

Equity Price Risk

Equity price risk is the risk that the value of a financial instrument will fluctuate because of changes in market prices. The Company is exposed to equity price risk because of investments in quoted equity securities, which are classified in the parent company statement of financial position as financial assets at FVPL and AFS investments.

The Company's policy is to maintain the risk to an acceptable level. Movement of share price is monitored regularly to determine impact on its financial position. The change in market prices used in the sensitivity analysis is determined based on the highest and lowest PSEi index of a financial instrument during year. The Company has determined that for AFS investments, a decrease on the PSEi index could have an impact on the profit or loss or equity, depending on whether the decline is significant or prolonged and an increase on the PSEi index would only impact equity, but would not have an effect on profit or loss. The Company has determined that for financial assets at FVPL, a decrease and increase on the PSEi index could have an impact on the profit or loss.

The effect on profit or loss and equity as a result of an increase (decrease) in fair value of equity securities at FVPL and fair value of quoted AFS equity securities as of December 31, 2017 and 2016 are as follows:

| | 2017 | |
|---|---|---|
| | **Increase (decrease) in market price** | **Increase (decrease) in profit or loss/equity** |
| Financial assets at FVPL | **10%** | **₱1,536,983** |
| | **(10%)** | **(1,536,983)** |
| AFS Investments | **3%** | **13,527,184** |
| | **(3%)** | **(13,527,184)** |

| | 2016 | |
|---|---|---|
| | Increase (decrease) in market price | Increase (decrease) in profit or loss/equity |
| Financial assets at FVPL | 5% | ₱1,004,551 |
| | (5%) | (1,004,551) |
| AFS Investments | 5% | 22,899,265 |
| | (5%) | (22,899,265) |

Liquidity Risk

Liquidity risk is the risk that the Company will be unable to pay its obligations when they fall due under normal and stress circumstances. The Company manages liquidity risk by maintaining a balance between continuity of funding and flexibility. Treasury controls and procedures are in place to ensure that sufficient cash is maintained to cover daily operational and working capital requirements. Management closely monitors the Company's future and contingent obligations and sets up required cash reserves as necessary in accordance with internal policies.

The tables below summarize the maturity profile of the Company's financial liabilities and the maturity profile of financial assets that can be used by the Company to manage its liquidity risk as of December 31, 2017 and 2016.

| | December 31, 2017 | | | |
|---|---|---|---|---|
| **Financial Assets** | **On Demand** | **Less than 3 Months** | **3 to 12 Months** | **Total** |
| Loans and receivables: | | | | |
| Cash and cash equivalents: | | | | |
| Cash in banks | ₱85,130,641 | ₱– | ₱– | ₱85,130,641 |
| Cash equivalents | 39,083,375 | – | – | 39,083,375 |
| Trade receivables from related parties | 704,138,925 | – | – | 704,138,925 |
| Rent receivables: | | | | |
| Third parties | 2,332,402 | – | – | 2,332,402 |
| Related parties | 199,366 | – | – | 199,366 |
| Advances to officers and employees | 853,611 | – | – | 853,611 |
| Other receivables | – | 10,316,184 | 1,098,921 | 11,415,105 |
| Financial assets at FVPL | 15,369,829 | – | – | 15,369,829 |

*(Forward)*

| | December 31, 2017 | | | |
|---|---|---|---|---|
| | **On Demand** | **Less than 3 Months** | **3 to 12 Months** | **Total** |
| AFS investments: | | | | |
| Equity securities | ₱– | ₱– | ₱462,786,847 | ₱462,786,847 |
| Debt securities | – | – | 571,359,069 | 571,359,069 |
| **Total financial assets** | **847,108,149** | **10,316,184** | **1,035,244,837** | **1,892,669,170** |
| **Financial Liabilities** | | | | |
| Accounts payables | **10,352,007** | – | – | **10,352,007** |
| Dividends payable | **28,720,661** | – | – | **28,720,661** |
| Liabilities under trust receipts | – | **59,178,815** | – | **59,178,815** |
| Customers and tenants deposits | – | – | **11,910,165** | **11,910,165** |
| Accrued other expenses | **9,991,333** | – | – | **9,991,333** |
| **Total financial liabilities** | **49,064,001** | **59,178,815** | **11,910,165** | **120,152,981** |
| **Net financial asset (liabilities)** | **₱798,044,148** | **(₱48,862,631)** | **₱1,023,334,672** | **₱1,772,516,189** |

| | December 31, 2016 | | | |
|---|---|---|---|---|
| | On Demand | Less than 3 Months | 3 to 12 Months | Total |
| **Financial Assets** | | | | |
| Loans and receivables: | | | | |
| Cash and cash equivalents: | | | | |
| Cash in banks | ₱75,227,909 | ₱– | ₱– | ₱75,227,909 |
| Cash equivalents | 72,754,970 | – | – | 72,754,970 |
| Trade receivables from related parties | 720,267,316 | – | – | 720,267,316 |
| Rent receivables: | | | | |
| Third parties | 2,297,077 | – | – | 2,297,077 |
| Related parties | 1,117,033 | – | – | 1,117,033 |
| Advances to officers and employees | 534,088 | – | – | 534,088 |
| Other receivables | – | 7,587,814 | 1,098,921 | 8,686,735 |
| Financial assets at FVPL | 15,571,517 | – | – | 15,571,517 |
| AFS investments: | | | | |
| Equity securities | – | – | 469,801,007 | 469,801,007 |
| Debt securities | – | – | 551,194,040 | 551,194,040 |
| **Total financial assets** | 887,769,910 | 7,587,814 | 1,022,094,968 | 1,917,451,692 |
| **Financial Liabilities** | | | | |
| Accounts payables | 18,557,546 | – | – | 18,557,546 |
| Dividends payable | 9,884,260 | – | – | 9,884,260 |
| Customers and tenants deposits | – | – | 11,695,183 | 11,695,183 |
| Accrued other expenses | 44,357,603 | – | – | 44,357,603 |
| **Total financial liabilities** | 72,799,409 | – | 11,695,183 | 84,494,592 |
| **Net financial asset** | ₱814,970,501 | ₱7,587,814 | ₱1,010,398,785 | ₱1,832,957,100 |

Fair Value

Below are the Company's financial assets measured and carried at fair value as of December 31, 2017 and 2016.

| | **2017** | 2016 |
|---|---|---|
| Financial assets at FVPL | **₱15,369,829** | ₱15,571,517 |
| AFS investments | | |
| Debt securities | **571,359,069** | 551,194,040 |
| Quoted equity securities | **450,971,139** | 457,985,299 |

Financial assets at FVPL and quoted AFS investments are carried at their fair values based on quoted market prices.

The carrying amounts of cash and cash equivalents, receivables, accounts payables and other current liabilities approximate their fair values due to their short-term nature. The carrying amount of unquoted AFS investments also approximate the fair values based on the adjusted net asset method.

Fair Value Hierarchy

Below table presents the fair value measurement hierarchy of the Company's financial assets carried at fair value as of December 31:

| | December 31, 2017 | | | |
|---|---|---|---|---|
| | **Total** | **Level 1** | **Level 2** | **Level 3** |
| **Financial assets measured at fair value** | | | | |
| Financial assets at FVPL | **₱15,369,829** | **₱15,369,829** | **₱–** | **₱–** |
| AFS investments | | | | |
| Quoted debt securities | **571,359,069** | **571,359,069** | **–** | **–** |
| Quoted equity securities | **450,971,139** | **450,971,139** | **–** | **–** |

| | December 31, 2016 | | | |
|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 |
| **Financial assets measured at fair value** | | | | |
| Financial assets at FVPL | ₱15,571,517 | ₱15,571,517 | ₱– | ₱– |
| AFS investments | | | | |
| Quoted debt securities | 551,194,040 | 551,194,040 | – | – |
| Quoted equity securities | 457,985,299 | 457,985,299 | – | – |

The fair value measurement hierarchy of investment properties carried at cost is disclosed in Note 11.

There was no reclassification of financial instruments from and into levels 1, 2 and 3.

Changes in liabilities arising from financing activities

The changes in the Company's liabilities arising from financing activities in 2017 follows:

| | January 1 | Cash flows | Dividends declared | December 31 |
|---|---|---|---|---|
| Dividends payable | ₱9,884,260 | (₱93,663,599) | ₱112,400,000 | ₱28,720,661 |

## 25. Capital Management Policies

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended December 31, 2017 and 2016.

The Company monitors capital by having a daily monitoring of receipts and collections, regular release of disbursements to suppliers, monthly cash flow report preparation and monthly review of capital expenditure requirements. The Company at this point, with its healthy cash flow, is not looking for any bank loans to finance its operations and renovations. The Company strives to earn a minimum return double the annual inflation rate.

The following table summarizes the total capital considered by the Company as of December 31, 2017 and 2016:

| | 2017 | 2016 |
|---|---|---|
| Capital stock | ₱1,500,000,000 | ₱1,500,000,000 |
| Retained earnings | 1,209,598,250 | 1,239,042,985 |
| | ₱2,709,598,250 | ₱2,739,042,985 |

## 26. Segment Information

The Company's operating business are organized and managed separately according to industry. The industry segments where the Group operates are as follows:

a. Bakery flour - manufacturing of flour and distribution/sales of its produce.
b. Mill feed - utilization of its by-products and distribution/sales of its produce; and
c. Real estate and investment - leasing of office and commercial units and investment in securities.

The Group has only one geographical segment as its operations are solely located in the Philippines.

The following tables on business segments present the segment assets as of December 31, 2017 and 2016 and the revenue and profit information for the period ended.

| | December 31, 2017 | | | |
|---|---|---|---|---|
| | Bakery Flour | Mill Feed | Real Estate and Investment | Consolidated |
| **Revenue** | | | | |
| Sales – related parties | ₱671,999,632 | ₱65,482,721 | ₱– | ₱737,482,353 |
| Rental income | – | – | 28,686,188 | 28,686,188 |
| Interest income | – | – | 26,574,128 | 26,574,128 |
| Dividend income | – | – | 27,818,965 | 27,818,965 |
| | 671,999,632 | 65,482,721 | 83,079,281 | 820,561,634 |
| **Cost of sales/services** | 507,867,545 | 49,488,939 | 9,067,496 | 566,423,980 |
| **Gross profit on sales/income** | 164,132,087 | 15,993,782 | 74,011,785 | 254,137,654 |
| Selling and administrative expenses | (140,188,591) | (13,660,618) | – | (153,849,209) |
| Interest expense | – | – | (1,166,801) | (1,166,801) |
| Other income (charges) – net | (558,524) | (54,425) | (1,726,454) | (2,339,403) |
| Provision for income tax | – | – | – | (13,726,976) |
| **Net income** | ₱23,384,972 | ₱2,278,739 | ₱71,118,530 | ₱83,055,265 |
| **Property, plant and equipment** | ₱62,323,112 | ₱2,055,545 | ₱1,813,803 | ₱66,192,460 |
| **Depreciation and amortization** | ₱14,681,657 | ₱484,231 | ₱952,332 | ₱16,118,220 |
| **Additions to property, plant and equipment and investment properties** | ₱4,081,333 | ₱134,611 | ₱18,312,826 | ₱22,528,770 |

| | December 31, 2016 | | | |
|---|---|---|---|---|
| | Bakery Flour | Mill Feed | Real Estate and Investment | Consolidated |
| **Revenue** | | | | |
| Sales – related parties | ₱822,527,092 | ₱96,400,414 | ₱– | ₱918,927,506 |
| Rental income | – | – | 27,076,857 | 27,076,857 |
| Interest income | – | – | 27,402,655 | 27,402,655 |
| Dividend income | – | – | 123,156,361 | 123,156,361 |
| | 822,527,092 | 96,400,414 | 177,635,873 | 1,096,563,379 |
| **Cost of sales/services** | 584,186,133 | 68,466,784 | 7,852,815 | 660,505,732 |
| **Gross profit on sales/income** | 238,340,959 | 27,933,630 | 169,783,058 | 436,057,647 |
| Selling and administrative expenses | (147,845,992) | (17,327,592) | – | (165,173,584) |
| Interest expense | – | – | (1,858,306) | (1,858,306) |
| Other income (charges) – net | 1,395,134 | 163,510 | 5,191,068 | 6,749,712 |
| Provision for income tax | – | – | – | (20,056,636) |
| **Net income** | ₱91,890,101 | ₱10,769,548 | ₱173,115,820 | ₱255,718,833 |
| **Property, plant and equipment** | ₱72,740,459 | ₱2,399,129 | ₱2,116,983 | ₱77,256,571 |
| **Depreciation and amortization** | ₱15,590,763 | ₱514,215 | ₱1,060,384 | ₱17,165,362 |
| **Additions to property, plant and equipment and investment properties** | ₱3,691,724 | ₱121,761 | ₱– | ₱3,813,485 |

## 27. Supplementary Information Required Under Revenue Regulations 15-2010

In compliance with the requirements set forth by RR 15-2010, hereunder are the information on VAT, duties, taxes and licenses, documentary stamp taxes and withholding taxes paid or accrued during the taxable year.

a. Net Sales/Receipts and Output VAT

| | Net Sales/ Receipt | Output VAT |
|---|---|---|
| Goods: | | |
| Sale of goods | ₱671,999,632 | ₱80,639,956 |
| VAT-exempt sales | 65,482,721 | – |
| Scrap sales | 730,644 | 87,677 |
| Services: | | |
| Rental income | 28,591,141 | 3,430,937 |
| Common utilities service area income | 8,838,992 | 1,060,679 |
| | ₱775,643,130 | ₱85,219,249 |

The output VAT on the Company's rental and common utilities service area income are based on actual collections.

Exempt sales consist of sales of mill feeds, the by-product of the manufactured flour pursuant to Revenue Regulation No.16-05.

b. Input VAT

| | |
|---|---|
| Balance at January 1 | ₱4,761,916 |
| Current year's domestic purchases/payments of importations for: | |
| Goods for resale/manufacture or further processing | 15,079,694 |
| Goods other than for resale or manufacture | – |
| | 19,841,610 |
| Application against output VAT | (19,841,610) |
| Balance at December 31 | ₱– |

c. Landed Costs and Customs Duties

Landed costs paid in 2017 amounted to ₱423,440,741.

d. Other Taxes and Licenses

| | |
|---|---|
| Real estate taxes | ₱5,495,842 |
| License and permits fees | 2,496,091 |
| | ₱7,991,933 |

e. Documentary Stamp Taxes

Documentary stamp taxes paid for the year amounting to ₱775,002 cover charges from the banks for importation and form part of inventory costs.

f. Withholding Taxes

| | |
|---|---|
| Withholding taxes on compensation and benefits | ₱12,555,344 |
| Expanded withholding taxes | 4,133,228 |
| Final withholding taxes on royalties and dividends | 6,113,128 |

g. Tax Assessments

As of December 31, 2017, the Company has the following tax assessments:

a. On May 26, 2017, the Company filed an appeal, Petition for Review before the Court of Tax Appeals (CTA Case No. 9603) praying for the cancellation of the deficiency tax assessments in the aggregate amount of Two Hundred Four Million Thirteen Thousand Three Hundred Five Pesos and 81/100 (₱204,013,305.81) inclusive of increments, for taxable year ending December 31, 2009. A large amount of the assessment is the alleged Improperly Accumulated Earnings Tax amounting to ₱186,843,462.77. The Company has filed its Formal Offer of Evidence on January 29, 2018.

b. The Company received a Formal Letter of Demand from the BIR in December 19, 2016 for alleged deficiency income tax, value-added tax, expanded withholding tax, final withhold tax, documentary stamp tax, fringe benefit tax and improperly accumulated earnings tax for the taxable year 2011 in the aggregate amount of ₱860,062,682.54. The Company filed its protest letter in March 20, 2017. The Company's protest remains pending with the BIR.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws in effect at the balance sheet date.

Provisions
Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. When the Company expects a provision or loss to be reimbursed, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain and its amount is estimable. The expense relating to any provision is presented in profit or loss, net of reimbursement.

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

Segment Reporting
The Company's operating business is organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business segment is presented in Note 26 to the financial statements. The Group revenue producing segments are located in the Philippines (i.e. geographical location). Therefore, geographical segment information is no longer presented.

Events after Balance Sheet Date
Post year-end events that provide additional information about the Company's financial position at the balance sheet date (adjusting events) are reflected in the parent company financial statements. Post year-end events that are not adjusting events are disclosed in the notes to parent company financial statements when material.

## 3. Significant Accounting Judgments and Estimates

The preparation of the parent company financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and amounts reported in the parent company financial statements.

In the opinion of management, the parent company financial statements reflect all adjustments necessary to present fairly the results for the periods presented. Actual results could differ from these estimates, and such estimates will be adjusted accordingly when the effects become determinable.

Judgments
*Classification of Financial Instruments.* The Company classifies a financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual agreement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the parent company statement of financial position.

*Classification of Leases- Company as Lessor.* The Company has entered into the property leases where it has determined that the risk and rewards related to those properties are retained by the Company. As such, these lease agreements are accounted for as operating leases.

Estimates

*Estimation of Allowance for Doubtful Accounts.* Provisions are made for specific and groups of accounts where objective evidence of impairment exists. The level of this allowance is evaluated by management on the basis of factors that affect the collectibility of the accounts, such as but are not limited to, the length of the Company's relationship with the customer, the customer's payment behavior, known market factors and historical loss experiences.

The Company makes an individual assessment of financial assets that are individually significant.

Since the Company has only three customers, the Company does not anymore perform collective impairment assessment on trade receivables. Collective impairment assessment of other receivables is performed by comparing the carrying amount against the present value of expected collection from other receivables.

The allowance for doubtful accounts amounted to ₱1.10 million as of December 31, 2017 and 2016. The carrying value of receivables amounted to ₱717.84 million and ₱731.80 million as of December 31, 2017 and 2016, respectively (see Note 5).

*Estimation of Fair Value of Investments in Unquoted Equity Securities.* The fair values of the unquoted equity securities have been estimated using the adjusted net asset method. The adjusted net asset method involves deriving the fair value the investee's equity instruments by reference to the fair value of its assets and liabilities. Subject to the measurement method that the investee used to measure its assets and liabilities, the assets subject to adjustments are property, plant and equipment, AFS investments and intangible assets. As of December 31, 2017 and 2016, the carrying value of unquoted AFS investments approximate their fair value.

The carrying value of unquoted equity securities amounted to ₱11.81 million as of December 31, 2017 and 2016 (see Notes 10 and 24).

*Estimation of Retirement Benefits Obligation and Costs.* The determination of the obligation and cost of retirement benefits is dependent on the selection of certain assumptions used by the actuary in calculating such amounts. Those assumptions include, among others, discount rates and salary increase rates.

The Company determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement liabilities. In determining the appropriate discount rate, the Company considers the interest rates in government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related defined benefit obligation. Further details about defined benefit obligation are presented in Note 19. While the Company believes that the assumptions are reasonable and appropriate, significant differences between actual experience and assumptions may materially affect the cost of retirement benefits and related obligation. The carrying value of net retirement plan liability amounted to ₱95.57 million and ₱107.02 million as of December 31, 2017 and 2016, respectively (see Note 19).

*Recognition of Deferred Income Tax Assets.* The Company reviews the carrying amounts at each balance sheet date and reduces deferred income tax assets to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized.

As of December 31, 2017 and 2016, the Company recognized deferred income tax assets on deductible temporary differences amounting to ₱29.00 million and ₱34.93 million, respectively (see Note 21).

As of December 31, 2017 and 2016, the Company did not recognized deferred income tax asset amounting to ₱6.23 million and ₱6.58 million, respectively, as management assessed that there will be no sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized (see Note 21).

*Provisions and Contingencies.* The Company is involved in certain tax assessments and claims. The estimation of the potential liability resulting from these tax assessments and claims requires significant judgment by management. The inherent uncertainty over the outcome of these tax examinations is brought about by the differences in the interpretation and implementation of the laws and tax rulings. The Company currently does not believe these tax assessments and claims could materially reduce its profitability. It is possible, however, that future financial performance could be materially affected by the changes in estimates or in the effectiveness of strategies relating to these tax assessments and claims (see Note 20).

## 4. Cash and Cash Equivalents

| | **2017** | 2016 |
|---|---|---|
| Cash on hand and in banks | **₱85,204,347** | ₱75,267,840 |
| Cash equivalents | **39,083,375** | 72,754,970 |
| | **₱124,287,722** | ₱148,022,810 |

Cash in banks earn interest at the respective bank deposit rates. Cash equivalents are short-term cash investments that are made for varying periods of up to three months depending on the immediate cash requirements of the Company and earn interest at the respective short-term investment rates.

Interest income earned on cash in banks and cash equivalents amounted to ₱1.95 million in 2017 and ₱2.40 million in 2016.

## 5. Receivables

| | **2017** | 2016 |
|---|---|---|
| Trade receivables from related parties (see Note 22) | **₱704,138,925** | ₱720,267,316 |
| Rent receivables from: | | |
| Third parties | **2,332,402** | 2,297,077 |
| Related parties (see Note 22) | **199,366** | 1,117,033 |
| Advances to officers and employees (see Note 22) | **853,611** | 534,088 |
| Others | **11,415,105** | 8,686,735 |
| | **718,939,409** | 732,902,249 |
| Less allowance for doubtful accounts | **1,098,921** | 1,098,921 |
| | **₱717,840,488** | ₱731,803,328 |

Trade receivable arise from sale of flour and mill feeds. These are noninterest-bearing with average credit terms of 120 days.

Rent receivables arise from leasing the Company's investment properties. These are noninterest-bearing with average credit term of 30 days.

Advances to officers and employees are noninterest-bearing and are normally liquidated through salary deductions within one month from availment date.

Movements in allowance for doubtful accounts are as follows:

| | 2017 | 2016 |
|---|---|---|
| Balance at beginning of year | **₱1,098,921** | ₱1,600,000 |
| Write-off | **–** | (501,079) |
| Balance at end of year | **₱1,098,921** | ₱1,098,921 |

Allowance for doubtful accounts on other receivables was determined from specific and collective assessment by the Company.

## 6. Financial Assets at Fair Value through Profit or Loss

The Company's financial assets at FVPL as of December 31, 2017 and 2016 consist of quoted equity securities with fair value of ₱15.37 million and ₱15.57 million, respectively.

Dividend income earned on financial assets at FVPL amounted to ₱0.43 million in 2017 and ₱0.48 million in 2016.

Fair value changes on financial assets at FVPL amounted to a loss of ₱0.20 million in 2017 and a gain of ₱1.00 million in 2016, and are included in "Other income (charges) - net" in the parent company statements of comprehensive income (see Note 18).

## 7. Inventories

| | 2017 | 2016 |
|---|---|---|
| At cost: | | |
| Flour and mill feeds | **₱10,913,023** | ₱17,557,062 |
| Wheat grains | **185,345,549** | 190,517,372 |
| Supplies | **9,002,244** | 9,252,042 |
| | **205,260,816** | 217,326,476 |
| Inventories in-transit (see Note 13) | **–** | 35,427,383 |
| | **₱205,260,816** | ₱252,753,859 |

Under the terms of agreements covering trust receipts, certain inventories have been released to the Company during the year in trust for the banks. The outstanding liabilities under such trust receipts amounted to ₱59.18 million as of December 31, 2017 (nil as of December 31, 2016). Interest expense recognized on liabilities under trust receipts amounted to ₱1.17 million in 2017 (based on annual interest of 2.5% to 3.50%) and ₱1.86 million in 2016 (based on annual interest of 2.0% to 2.50%) (see Note 13).

Inventories in-transit include wheat grains owned by not yet received by the Company as of balance sheet date. There are no inventories in-transit as of December 31, 2017.

Costs of inventories recognized under "Cost of sales" in the parent company statements of comprehensive income amounted to ₱457.16 million in 2017 and ₱542.17 million in 2016 (see Note 15).

## 8. Prepaid Expenses and Other Current Assets

| | 2017 | 2016 |
|---|---|---|
| Store supplies | **₱22,503,832** | ₱21,133,316 |
| Advances to suppliers | **5,767,443** | 1,158,857 |
| Advance VAT on importation | **5,636,613** | – |
| Taxes and licenses | **2,439,510** | 1,705,429 |
| Creditable withholding taxes | **1,395,509** | – |
| Insurance | **878,542** | 1,085,534 |
| Others | **920,431** | 1,325,085 |
| | **₱39,541,880** | ₱26,408,221 |

Advances to suppliers represents deposits on order placements to suppliers.

Others represent prepayments which includes direct costs from importation which eventually form part of inventories.

## 9. Investments in and Deposits to Subsidiaries

This account represents the Company's 100% ownership in LFM Properties Corporation (LPC) and Liberty Engineering Corporation (LEC).

LPC is primarily engaged in the business of leasing out real estate properties such as office spaces and condominium units. LEC is primarily engaged in the business of selling, leasing and distribution of cars, trucks, machineries, furniture and appliances. The principal place of business of LPC and LEC is in the Philippines.

The cost of investment in and deposit to subsidiaries as of December 31 follows:

| | 2017 | 2016 |
|---|---|---|
| LPC | **₱212,563,900** | ₱212,563,900 |
| LEC | **4,620,550** | 4,620,550 |
| | **217,184,450** | 217,184,450 |
| Deposits intended for equity subscription | **25,000,000** | – |
| | **₱242,184,450** | ₱217,184,450 |

On February 17, 2017, the Board approved the subscription of 2.5 million shares at ₱10 per share for a total amount of ₱25.00 million.

On November 6, 2017, LEC has applied with the Philippine SEC for an increase its authorized capital stock and for conversion of such deposits into shares. As of December 31, 2017, the said applications is still for approval of the Philippine SEC.

Dividend income earned from LPC amounted to ₱100.00 million in 2016 (nil in 2017).

## 10. Available-for-Sale Investments

| | 2017 | 2016 |
|---|---|---|
| Debt securities | ₱571,359,069 | ₱551,194,040 |
| Equity securities: | | |
| Quoted | 450,971,139 | 457,985,299 |
| Unquoted | 11,815,708 | 11,815,708 |
| | ₱1,034,145,916 | ₱1,020,995,047 |

Interest income earned on debt securities amounted to ₱24.62 million in 2017 and ₱25.00 million in 2016. Dividend income earned on investments in equity securities amounted to ₱27.39 million in 2017 and ₱22.68 million in 2016.

In 2017, the Company sold AFS investments with a carrying value of ₱27.14 million for a total proceeds of ₱27.91 million. Accordingly, the fair value gain of ₱0.74 million previously recognized on these investments, were realized and recognized as gain on sale of AFS investments in 2017 (see Note 18).

The fair value changes of AFS investments follow:

| | 2017 | 2016 |
|---|---|---|
| Beginning balance | ₱75,458,852 | ₱65,121,886 |
| Movement during the year: | | |
| Fair value gains (losses) recognized as other comprehensive income | (17,276,621) | 17,007,166 |
| Prior year fair value gains realized during the year through sale of AFS (see Note 18) | (740,000) | (6,670,200) |
| | (18,016,621) | 10,336,966 |
| Ending balance | ₱57,442,231 | ₱75,458,852 |

## 11. Investment Properties

| | December 31, 2017 | | |
|---|---|---|---|
| | Land | Building and Building Improvements | Total |
| **Cost** | | | |
| Balance at beginning of year | ₱482,105,340 | ₱45,232,023 | ₱527,337,363 |
| Additions | – | 18,312,826 | 18,312,826 |
| Balance at end of year | 482,105,340 | 63,544,849 | 545,650,189 |
| **Accumulated Depreciation** | | | |
| Balance at beginning of year | – | 29,973,646 | 29,973,646 |
| Depreciation | – | 952,332 | 952,332 |
| Balance at end of year | – | 30,925,978 | 30,925,978 |
| **Net book values** | ₱482,105,340 | ₱32,618,871 | ₱514,724,211 |

| | December 31, 2016 | | |
|---|---|---|---|
| | Land | Building and Building Improvements | Total |
| **Cost** | | | |
| Balance at beginning of year | ₱482,105,340 | ₱45,401,226 | ₱527,506,566 |
| Reclassification and adjustments | – | (169,203) | (169,203) |
| Balance at end of year | 482,105,340 | 45,232,023 | 527,337,363 |
| **Accumulated Depreciation** | | | |
| Balance at beginning of year | – | 28,913,262 | 28,913,262 |
| Depreciation | – | 1,060,384 | 1,060,384 |
| Balance at end of year | – | 29,973,646 | 29,973,646 |
| **Net book values** | ₱482,105,340 | ₱15,258,377 | ₱497,363,717 |

The aggregate fair value of investment properties acquired prior to 2017 amounted to ₱1.10 billion as of December 31, 2015. These have been determined based on valuation performed by a qualified and independent appraiser. The valuation undertaken considered the highest and best use and established estimated value by processes involving comparison (Level 3).

The following describes the valuation techniques used and key inputs to valuation on investment properties:

| | Valuation technique | Significant unobservable input |
|---|---|---|
| Land | Sales Comparison Approach | Adjusted sales price of comparable properties |
| Building | Cost Approach | Current market prices of similar materials, labor |

Significant increases (decreases) in estimated inputs above would result in a significantly higher (lower) fair value of the properties.

Management assessed that there is no indication that the fair value of these investment properties has declined significantly as of December 31, 2017 and 2016 from the latest appraisal as no significant change has taken place in the market, economic or legal environment in which the Company operates or in the market to which the investment properties are dedicated.

The highest and best use of land and building is as commercial utility, which is their current use. The highest and best use of land held for capital appreciation at measurement date would be for residential utility or development. For strategic reasons, the land is not being used in this manner.

In 2017, the Company secured ownership of a building space amounting to ₱18.31 million. Management assessed that there is no indication that the fair value of the said property as of December 31, 2017 has changed significantly from the time of its purchase.

# COVER SHEET
for
## AUDITED FINANCIAL STATEMENTS

SEC Registration Number

1 4 7 8 2

**COMPANY NAME**

L I B E R T Y F L O U R M I L L S , I N C .

**PRINCIPAL OFFICE** *( No. / Street / Barangay / City / Town / Province )*

7 F L i b e r t y B u i l d i n g , 8 3 5 A . A r n a i z A v e n u e , M a k a t i C i t y

| Form Type | Department requiring the report | Secondary License Type, If Applicable |
|---|---|---|
| A A F S | | |

**COMPANY INFORMATION**

| Company's Email Address | Company's Telephone Number | Mobile Number |
|---|---|---|
| info@libertygroup.com.ph | (02) 892-5011 | – |

| No. of Stockholders | Annual Meeting (Month / Day) | Fiscal Year (Month / Day) |
|---|---|---|
| 451 | Last Wednesday of May | December 31 |

**CONTACT PERSON INFORMATION**

The designated contact person ***MUST*** be an Officer of the Corporation

| Name of Contact Person | Email Address | Telephone Number/s | Mobile Number |
|---|---|---|---|
| Jose Ma. Lopez | jmlopez@pldtdsl.net | (02) 8925011 | – |

**CONTACT PERSON's ADDRESS**

7F Liberty Building, 835 A. Arnaiz Avenue, Makati City

***NOTE 1 :*** *In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.*

***2 :*** *All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.*

SGV
Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

# INDEPENDENT AUDITOR'S REPORT

The Stockholders and Board of Directors
Liberty Flour Mills, Inc.
7F Liberty Building
835 A. Arnaiz Avenue
Makati City

## Report on the Audit of the Parent Company Financial Statements

### Opinion

We have audited the parent company financial statements of Liberty Flour Mills, Inc. (the Company), which comprise the parent company statements of financial position as at December 31, 2017 and 2016, and the parent company statements of comprehensive income, parent company statements of changes in equity and parent company statements of cash flows for the years then ended, and notes to the parent company financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying parent company financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

### Basis for Opinion

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

### Responsibilities of Management and Those Charged with Governance for the Parent Company Financial Statements

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

SGV
Building a better
working world



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

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

**Report on the Supplementary Information Required Under Revenue Regulations 15-2010**

Our audits were conducted for the purpose of forming an opinion on the parent company financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 27 to the parent company financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Liberty Flour Mills, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The engagement partner on the audit resulting in this independent auditor's report is Editha V. Estacio.

SYCIP GORRES VELAYO & CO.

Editha V. Estacio
Partner
CPA Certificate No. 91269
SEC Accreditation No. A-788-A (Group A),
January 16, 2018, valid until May 16, 2018
Tax Identification No. 178-486-845
BIR Accreditation No. 08-001998-94-2016,
January 3, 2017, valid until January 2, 2020
PTR No. 6621258, January 9, 2018, Makati City

March 21, 2018

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date APR 10 2018 TSIS
RECEIVED
MELINA PRISCA S. RANJO

# LIBERTY FLOUR MILLS, INC.

## PARENT COMPANY STATEMENTS OF FINANCIAL POSITION

| | December 31 | |
|---|---|---|
| | 2017 | 2016 |
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents (Note 4) | **₱124,287,722** | ₱148,022,810 |
| Receivables (Note 5) | **717,840,488** | 731,803,328 |
| Financial assets at fair value through profit or loss (Note 6) | **15,369,829** | 15,571,517 |
| Inventories (Note 7) | **205,260,816** | 252,753,859 |
| Prepaid expenses and other current assets (Note 8) | **39,541,880** | 26,408,221 |
| **Total Current Assets** | **1,102,300,735** | 1,174,559,735 |
| **Noncurrent Assets** | | |
| Available-for-sale investments (Note 10) | **1,034,145,916** | 1,020,995,047 |
| Investment properties (Note 11) | **514,724,211** | 497,363,717 |
| Investment in and deposits to subsidiaries (Note 9) | **242,184,450** | 217,184,450 |
| Property, plant and equipment (Note 12) | **66,192,460** | 77,256,571 |
| Deferred income tax assets – net (Note 21) | **28,973,208** | 34,719,311 |
| Other noncurrent assets (Note 11) | **2,541,575** | 3,310,129 |
| **Total Noncurrent Assets** | **1,888,761,820** | 1,850,829,225 |
| **TOTAL ASSETS** | **₱2,991,062,555** | ₱3,025,388,960 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| **Current Liabilities** | | |
| Accounts payable and other current liabilities (Note 13) | **₱128,831,012** | ₱100,346,445 |
| Income tax payable | **1,039,648** | 9,629,717 |
| **Total Current Liabilities** | **129,870,660** | 109,976,162 |
| **Noncurrent Liability** | | |
| Net retirement plan liability (Note 19) | **95,573,486** | 107,019,257 |
| **Total Liabilities** | **225,444,146** | 216,995,419 |
| **Equity** | | |
| Capital stock (Note 14) | **1,500,000,000** | 1,500,000,000 |
| Other components of equity: | | |
| Fair value changes on available-for-sale investments (Note 10) | **57,442,231** | 75,458,852 |
| Accumulated remeasurement losses on retirement benefits (Note 19) | **(1,422,072)** | (6,108,296) |
| Retained earnings (Note 14) | **1,209,598,250** | 1,239,042,985 |
| **Total Equity** | **2,765,618,409** | 2,808,393,541 |
| **TOTAL LIABILITIES AND EQUITY** | **₱2,991,062,555** | ₱3,025,388,960 |

*See accompanying Notes to Parent Company Financial Statements.*

## LIBERTY FLOUR MILLS, INC.
## PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME

| | Years Ended December 31 | |
|---|---|---|
| | **2017** | 2016 |
| **SALES** (Note 22) | **₱737,482,353** | ₱918,927,506 |
| **COST OF SALES** (Note 15) | **557,356,484** | 652,652,917 |
| **GROSS PROFIT** | **180,125,869** | 266,274,589 |
| **OPERATING EXPENSES** (Note 16) | | |
| Administrative expenses | **(117,950,542)** | (125,061,568) |
| Selling expenses | **(35,898,667)** | (40,112,016) |
| **OTHER INCOME (CHARGES)** | | |
| Interest income (Notes 4 and 10) | **26,574,128** | 27,402,655 |
| Dividend income (Notes 6, 9 and 10) | **27,818,965** | 123,156,361 |
| Rental income – net (Notes 11, 22 and 23) | **19,618,692** | 19,224,042 |
| Interest expense (Note 7) | **(1,166,801)** | (1,858,306) |
| Other income (charges) – net (Notes 6, 10 and 18) | **(2,339,403)** | 6,749,712 |
| **INCOME BEFORE INCOME TAX** | **96,782,241** | 275,775,469 |
| **PROVISION FOR (BENEFIT FROM) INCOME TAX** (Note 21) | | |
| Current | **9,989,255** | 52,158,106 |
| Deferred | **3,737,721** | (32,101,470) |
| | **13,726,976** | 20,056,636 |
| **NET INCOME** | **83,055,265** | 255,718,832 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | |
| Other comprehensive income to be reclassified to profit or loss in subsequent periods - | | |
| Fair value gain (loss) on available-for-sale investments (Note 10) | **(18,016,621)** | 10,336,966 |
| Other comprehensive income not to be reclassified to profit or loss in subsequent periods - | | |
| Remeasurement gain on retirement benefits (Note 19) | **6,694,606** | 26,889,833 |
| Income tax effect | **(2,008,382)** | 2,617,841 |
| | **4,686,224** | 29,507,674 |
| **TOTAL OTHER COMPREHENSIVE INCOME (LOSS)** | **(13,330,397)** | 39,844,640 |
| **TOTAL COMPREHENSIVE INCOME** | **₱69,724,868** | ₱295,563,472 |
| **BASIC/DILUTED EARNINGS PER SHARE** (Note 14) | **₱0.55** | ₱1.70 |

*See accompanying Notes to Parent Company Financial Statements.*

## LIBERTY FLOUR MILLS, INC.

## PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

| | | Other Components of Equity | | | |
|---|---|---|---|---|---|
| | Capital Stock - Issued and Outstanding (Note 14) | Fair Value Changes on Available-for-sale Investments (Note 10) | Accumulated Retirement Benefits (Note 19) | Retained Earnings (Note 14) | Total |
| **BALANCES AT JANUARY 1, 2017** | **₱1,500,000,000** | **₱75,458,852** | **(₱6,108,296)** | **₱1,239,042,985** | **₱2,808,393,541** |
| Net income for the period | – | – | – | 83,055,265 | 83,055,265 |
| Other comprehensive income (loss) | – | (18,016,621) | 4,686,224 | – | (13,330,397) |
| Total comprehensive income | – | (18,016,621) | 4,686,224 | 83,055,265 | 69,724,868 |
| Cash dividends declared (Note 14) | – | – | – | (112,500,000) | (112,500,000) |
| **BALANCES AT DECEMBER 31, 2017** | **₱1,500,000,000** | **₱57,442,231** | **(₱1,422,072)** | **₱1,209,598,250** | **₱2,765,618,409** |
| **BALANCES AT JANUARY 1, 2016** | **₱1,500,000,000** | **₱65,121,886** | **(₱35,615,970)** | **₱1,208,324,153** | **₱2,765,618,409** |
| Net income for the period | | | - | 255,718,832 | 255,718,832 |
| Other comprehensive income | – | 10,336,966 | 29,507,674 | – | 39,844,640 |
| Total comprehensive income | – | 10,336,966 | 29,507,674 | 255,718,832 | 295,563,472 |
| Cash dividends declared (Note 14) | – | – | – | (225,000,000) | (225,000,000) |
| **BALANCES AT DECEMBER 31, 2016** | **₱1,500,000,000** | **₱75,458,852** | **(₱6,108,296)** | **₱1,239,042,985** | **₱2,808,393,541** |

*See accompanying Notes to Parent Company Financial Statements.*

**LIBERTY FLOUR MILLS, INC.**

## PARENT COMPANY STATEMENTS OF CASH FLOWS

| | Years Ended December 31 | |
|---|---|---|
| | 2017 | 2016 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Income before income tax | **₱96,782,241** | ₱275,775,469 |
| Adjustments to reconcile profit before income tax to net cash flows: | | |
| Dividend income (Notes 6, 9 and 10) | **(27,818,965)** | (123,156,361) |
| Interest income (Notes 4 and 10) | **(26,574,128)** | (27,402,655) |
| Depreciation and amortization (Notes 11 and 12) | **16,118,220** | 17,165,362 |
| Change in net retirement liability (Note 19) | **(4,751,166)** | (919,919) |
| Gain on sale of: | | |
| Available-for-sale investments (Notes 10 and 18) | **(1,514,450)** | (4,186,517) |
| Property, plant and equipment | **(34,928)** | – |
| Interest expense (Notes 7) | **1,166,801** | 1,858,306 |
| Fair value loss on financial assets at fair value through profit or loss (Notes 6 and 18) | **201,688** | (1,004,551) |
| Working capital changes: | | |
| Decrease (increase) in: | | |
| Receivables | **13,962,840** | 58,425,229 |
| Inventories | **47,493,043** | (33,971,099) |
| Prepaid expenses and other current assets | **(22,083,265)** | 1,402,494 |
| Increase in accounts payables and other current liabilities | **9,648,166** | 41,124,557 |
| Cash generated by operations | **102,596,097** | 205,110,314 |
| Interest received | **26,574,128** | 27,402,655 |
| Income taxes paid | **(9,629,717)** | (58,318,311) |
| Net cash provided by operating activities | **119,540,508** | 174,194,658 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Acquisition of: | | |
| Available-for-sale investments (Note 10) | **(57,564,990)** | (100,005,000) |
| Investment properties (Note 11) | **(18,312,826)** | – |
| Property, plant and equipment (Note 12) | **(4,215,944)** | (3,813,485) |
| Proceeds from: | | |
| Disposal of: | | |
| Available-for-sale investment (Note 10) | **27,911,950** | 24,186,517 |
| Property, plant and equipment | **149,095** | – |
| Dividends received (Notes 6, 9 and 10) | **27,818,965** | 123,156,361 |
| Refund of deposits (Note 11) | **768,554** | 169,203 |
| Additional deposit for equity subscription (Note 9) | **(25,000,000)** | – |
| Net cash provided by (used in) investing activities | **(48,445,196)** | 43,693,596 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Dividends paid (Note 14) | **(93,663,599)** | (227,650,674) |
| Interest paid | **(1,166,801)** | (1,858,306) |
| Net cash used in financing activities | **(94,830,400)** | (229,508,980) |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | **(23,735,088)** | (11,620,726) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | **148,022,810** | 159,643,536 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | **₱124,287,722** | ₱148,022,810 |

*See accompanying Notes to Parent Company Financial Statements.*

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date APR 10 2018 TSIS
RECEIVED
MELINA PRISCA S. RANIO

# LIBERTY FLOUR MILLS, INC.
# NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

## 1. Corporate Information

Liberty Flour Mills, Inc. (the Company) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on December 26, 1958. On December 28, 2008, the Company extended its corporate life for another 50 years. The Company is engaged primarily in the manufacture of flour, utilization of its by-products and the distribution and sales of its produce. The Company's registered office is at 7F Liberty Building, 835 A. Arnaiz Avenue, Makati City.

The accompanying parent company financial statements were authorized and approved for issue by the Board of Directors (BOD) on March 21, 2018.

## 2. Significant Accounting and Financial Reporting Policies

Basis of Preparation

The parent company financial statements that are prepared for submission to the Philippine SEC and the Bureau of Internal Revenue (BIR) have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs).

The parent company financial statements are prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVPL) and available-for-sale (AFS) investments that are measured at fair value.

The parent company financial statements were presented in Philippine peso (Peso), which is the Company's functional and presentation currency, and rounded to the nearest Peso, except when otherwise indicated.

The Company also prepares and issues consolidated financial statements for the same period as the parent company financial statements and in accordance with PFRSs. The consolidated financial statements may be obtained at the Company's registered office address (see Note 1).

Changes in Accounting Policies and Disclosures

The Company applied for the first time certain pronouncements, which are effective for annual periods beginning on or after January 1, 2017.

- Amendments to PFRS 12, *Disclosure of Interests in Other Entities, Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle) – The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

  Adoption of the amendments did not have an impact on the Parent Company's financial statements.

- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative* – The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

The Company has provided the required information in Note 24 to the parent company financial statements. As allowed under the transition provisions of the standard, the Company did not present comparative information for the year ended December 31, 2016.

- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses* – The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions upon the reversal of the deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

  The Company applied the amendments retrospectively. However, their application has no effect on the Company's financial position and performance as the Company has no deductible temporary differences or assets that are in the scope of the amendments.

Standards Issued but not yet Effective
Pronouncements issued but not yet effective are listed below. The Company intends to adopt the following pronouncements when they become effective. Adoption of these pronouncements is not expected to have a significant impact on the Company's financial statements, unless otherwise indicated.

*Effective beginning on or after January 1, 2018*

- PFRS 9, Financial Instruments

  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, Financial Instruments: Recognition and Measurement, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

  The Company is currently assessing the impact of adopting this standard.

- PFRS 15, *Revenue from Contracts with Customers*

  PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

  The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018.

  The Company is assessing the potential effect of the amendments on its financial statements.

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

  The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

  On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

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

  The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)

  The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

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

  The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

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

  The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

*Effective beginning on or after January 1, 2019*

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

  The amendments to PFRS 9 allow debt instruments with negative compensation prepayment features to be measured at amortized cost or fair value through other comprehensive income. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

- PFRS 16, *Leases*

  PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

  Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

  Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

  PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

  Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

  The Company is currently assessing the impact of adopting PFRS 16.

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

  The amendments to PAS 28 clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using PFRS 9. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

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

  The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

  The interpretation specifically addresses the following:

  - Whether an entity considers uncertain tax treatments separately
  - The assumptions an entity makes about the examination of tax treatments by taxation authorities
  - How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
  - How an entity considers changes in facts and circumstances

  An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

*Deferred effectivity*

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

  The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

  On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

Current versus Noncurrent Classification
The Company presents assets and liabilities in the parent company statement of financial position based on current or noncurrent classification.

An asset is current when:
- It is expected to be realized or intended to be sold or consumed in the normal operating cycle,
- It is held primarily for the purpose of trading,
- It is expected to be realized within twelve months after the reporting period, or
- It is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when:
- It is expected to be settled in the normal operating cycle,
- It is held primarily for the purpose of trading,
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

All other liabilities are classified as noncurrent.

Deferred income tax assets and liabilities are classified as noncurrent assets and liabilities.

Fair Value Measurement
The Company measures financial instruments such as financial assets at FVPL and AFS investments at each financial reporting date.

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

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

The principal or the most advantageous market must be accessible to by the Company.

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

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

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

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

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

The Company determines the policies and procedures for both recurring fair value measurement, such as quoted AFS financial assets, and for non-recurring measurement.

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

The Company compares the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

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

Financial Instruments
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

a. Financial assets

*Initial Recognition and Measurement.* Financial assets are classified, at initial recognition, as financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments, AFS financial assets, or as derivatives designated as hedging instruments in an affective hedge, as appropriate. All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at FVPL, transactions costs that are attributable to the acquisition of the financial asset.

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

*"Day 1" Difference.* Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and the fair value (a "Day 1" difference) in the parent company statements of comprehensive income. In cases where data which is not

observable is used, the difference between the transaction price and model value is only recognized in the parent company statement of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the "Day 1" difference amount.

*Subsequent Measurement.* For purposes of subsequent measurement, financial assets are defined as: financial assets at FVPL; loans and receivables; and AFS investments. The Company does not have financial assets classified as HTM investments or derivatives designated as hedging instruments in an effective hedge.

- *Financial Assets at FVPL.* Financial assets at FVPL are financial assets that are purchased and held principally with the intention of selling or repurchasing them in the near term or are designated as financial assets at FVPL at initial recognition. Financial assets are designated as at FVPL by management on initial recognition when any of the following criteria are met:

    i. The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets and liabilities or recognizing gains or losses on them on a different basis;

    ii. The financial assets are part of a group of financial assets which are managed and their performance are evaluated on a fair value basis in accordance with a documented risk management or investment strategy; or

    iii. The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

    These financial assets are subsequently measured at fair market value, based primarily on quoted market prices. Realized and unrealized gains and losses arising from changes in fair market value of financial assets at FVPL are recognized in profit or loss. Dividend income on equity securities is recognized according to the terms of the contract or when the right of payment has been established.

    As of December 31, 2017 and 2016, the Company's financial assets at FVPL consist of equity securities that are held-for-trading.

- *Loans and Receivables.* Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortized cost using the effective interest rate method. The amortized cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization, using the effective interest rate method, of any difference between the initially recognized amount and the maturity amount. This calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognized in profit or loss when the financial assets are derecognized or impaired or amortized. Loan and receivables are classified as current assets when it is expected to be realized within 12 months after the balance sheet date or within the normal operating cycle, whichever is longer.

    As of December 31, 2017 and 2016, the Company's loans and receivables consist of cash and cash equivalents and receivables.

- *AFS Investments.* AFS investments are nonderivative financial assets that are either designated in this category or not classified in any of the other categories. Financial assets may be designated at initial recognition as AFS investments if they are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. AFS investments are subsequently measured at fair market value. Unrealized gains and losses arising from changes in fair market value of AFS investments are reported as other comprehensive income under "Fair value changes on available-for-sale financial assets" until the financial asset is derecognized or as the financial asset is determined to be impaired.

  As of December 31, 2017 and 2016, the Company's AFS investments consist of quoted and unquoted equity securities and debt securities.

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

- *Financial Assets Carried at Amortized Cost.* The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually and collectively for financial assets that are not individually significant. Objective evidence includes observable data that comes to the attention of the Company about loss events such as but not limited to significant financial difficulty of the counterparty, a breach of contract, such as a default or delinquency in interest or principal payments, probability that the borrower will enter bankruptcy or other financial re-organization. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics, such as customer type, payment history, past-due status and term, and that group of financial assets is collectively assessed for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

  If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, i.e., the effective interest rate computed at initial recognition. The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. Loans and receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery. The amount of the loss shall be recognized in profit or loss.

  If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

- *AFS Investments.* In the case of equity investments classified as AFS investments, impairment indicators would include a significant or prolonged decline in the fair value of the investments below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value have been below its original cost. Where there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss. Increases in fair value after impairment are recognized directly in other comprehensive income.

*Derecognition of Financial Asset.* A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The contractual right to receive cash flows from the financial asset has expired; or
- The Company retains the right to receive cash flows from the financial asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the financial asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the financial asset, but has transferred control of the financial asset.

When the Company has transferred its right to receive cash flows from a financial asset or has entered into a "pass-through" arrangement and has neither transferred nor retained substantially all the risk and rewards of the financial asset nor transferred control of the financial asset, the financial asset is recognized to the extent of the Company's continuing involvement in the financial asset. Continuing involvement that takes the form of a guarantee over the transferred financial asset is measured at the lower of the original carrying amount of the financial asset and the maximum amount of consideration that the Company could be required to repay.

On derecognition of a financial asset in its entirety, the difference between the carrying amount (measured at the date of derecognition) and the consideration received (including any new asset obtained less any new liability assumed) shall be recognized in profit or loss.

b. Financial Liabilities

*Initial Recognition.* Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

The Company's financial liabilities consist only of loans and borrowings. It does not have financial liabilities at FVPL or derivatives designated as hedging instruments in an effective hedge.

*Subsequent Measurement.* After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in profit or loss when the financial liabilities are derecognized as well as through the effective interest rate amortization process.

As of December 31, 2017 and 2016, the Company's loans and borrowings consist of accounts payable and other current liabilities.

The Company has no freestanding or embedded derivatives as of December 31, 2017 and 2016.

*Derecognition of Financial Liabilities.* A financial liability is derecognized when the obligation under the liability is extinguished, i.e., when discharged or cancelled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

c. Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the parent company statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

Cash and Cash Equivalents
Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and are subject to an insignificant risk of change in value.

Inventories
Inventories are valued at the lower of cost (computed using the first-in, first-out method for raw materials and moving-average for finished goods) and net realizable value (NRV). Cost of finished goods such as flour and mill feeds and work in process represents the costs of direct materials, direct labor and a proportion of production overhead. Cost of raw materials such as wheat grains represents the cost of purchase and other costs directly attributable to its acquisition. NRV is the selling price in the ordinary course of business less the costs of completion and the estimated costs necessary to make the sale.

Prepaid expenses
Prepaid expenses paid in advance are recorded as asset before they are utilized. This account comprises insurance premiums, and other prepaid items. The insurance premiums and other prepaid items are apportioned over the period covered by the payment and charged to the appropriate accounts in profit or loss when incurred.

Store supplies
Store supplies under "Prepaid expenses and other current assets" are incidental items necessary for maintenance activities that are expected to be consumed within the 12 months or within the normal operating cycle.

Value-added Tax
Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable.

- When VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the parent company statement of financial position.
- When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as an asset in the parent company statement of financial position to the extent of the recoverable amount.

The net amount of VAT recoverable from or payable to, the taxation authority is included as part of "Prepaid expenses and other current assets" or "Accounts payable and other current liabilities" in the parent company statement of financial position.

Investment in Subsidiaries
A subsidiary is an entity controlled by the Company. Control exists when an investor is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Investment in subsidiaries is carried in the parent company statement of financial position at cost, less any impairment in value. The Company recognizes income from the investment only to the extent that it receives distributions from accumulated income of the subsidiary arising after the date of acquisition. Distributions received in excess of the accumulated income of the subsidiary are regarded as a recovery of investment and are recognized as a reduction of the cost of the investment.

Investment Properties
Investment properties are measured at cost, including transaction costs less accumulated depreciation (for depreciable items) and any impairment in value. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property.

Depreciation is computed on a straight line basis over the estimated useful lives of building and building improvements ranging from 10 to 20 years.

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

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

Property, Plant and Equipment
Property, plant and equipment, except land, are carried at cost less accumulated depreciation and any impairment in value. Land is carried at cost less any impairment in value.

The initial cost of property, plant and equipment consists of its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged in profit or loss in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of the property, plant and equipment.

Depreciation commences once the assets are available for use. Depreciation is computed using the straight-line method over the estimated useful lives of the assets:

| | Number of Years |
|---|---|
| Mill machinery and equipment | 10 |
| Building and building equipment | 10-20 |
| Transportation equipment | 5 |
| Land improvements | 20 |
| Other equipment | 5 |

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. The estimated useful lives and depreciation method are reviewed periodically to ensure that these are consistent with the expected pattern of economic benefits from the items of property, plant and equipment. Fully depreciated items are retained as property, plant and equipment until these are no longer in use.

An item of property, plant and equipment is derecognized upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognized.

Impairment of Nonfinancial Assets
The carrying values of nonfinancial assets (investment in subsidiaries, investment properties, property, plant and equipment and others nonfinancial assets) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any such indication exists and where the carrying amount of an asset exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The estimated recoverable amount of an asset is the higher of an asset's fair value less costs to sell and value-in-use. The fair value is the amount obtainable from the sale of an asset in an arm's length transaction less costs of disposal while value-in-use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in profit or loss.

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.

Capital Stock
Capital stock is measured at par value for all shares issued and outstanding. When the Company purchases its own capital stock (treasury shares), the consideration paid, including any attributable incremental costs, is deducted from equity until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related tax effects, is included in equity.

Other Comprehensive Income
Other comprehensive income comprises items of income and expense (including items previously presented under the statement of changes in equity) that are not recognized in profit or loss for the year in accordance with PFRS. Other comprehensive income (loss) of the Company includes gains and losses on changes in fair value of AFS investments and remeasurement gains or losses on retirement benefits.

Retained Earnings
Retained earnings represent the cumulative balance of profit or loss, dividend distributions, prior period adjustments, effects of the changes in accounting policy and other capital adjustments.

Revenue
Revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, returns and output VAT. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent and concluded that it is acting as a principal in all arrangements. The following specific recognition criteria must also be met before revenue is recognized:

*Sale of Goods.* Revenue from the sale of goods (net of discount, if any) shown as "Net Sales" in the parent company statement of comprehensive income is recognized upon invoicing and delivery when the significant risks and rewards of ownership of the goods have passed to the customer.

*Rental Income.* Rental income from operating leases is recognized on a straight-line basis over the lease term. Initial direct costs incurred specifically to earn revenue from an operating lease are recognized as an expense in profit or loss in the period in which they are incurred.

*Interest Income.* Interest income is recognized as the interest accrues.

*Dividend Income.* Dividend income is recognized when the Company's right to receive the payment is established.

Costs and Expenses
Costs and expenses are recognized when decrease in future economic benefits related to a decrease in an asset or an increase of a liability, other than equity transactions with equity holders, has arisen that can be measured reliably.

*Costs of Sales.* Cost of sales is recognized as expense when the related goods are sold.

*Administrative and Selling Expenses.* Administrative expenses constitute costs of administering the business. Selling expenses are costs incurred to sell or distribute the merchandise. Administrative and selling expenses are expensed as incurred.

Leases
The determination whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset and the arrangement conveys a right to use the asset.

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

Retirement Benefit Costs
The Company operates a defined benefit pension plan, which requires contributions to be made to a separately administered fund.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. The retirement benefits cost comprise of service cost, net interest on the net defined benefit liability or asset and remeasurements of net defined benefit liability or asset.

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

Remeasurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding amounts included in net interest on the defined benefit liability and the return on plan assets (excluding amounts included in the net interest on the defined benefit liability), are recognized immediately in the parent company statements of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognized in profit or loss on the earlier of:
- The date of the plan amendment or curtailment; and
- The date that the Company recognizes related restructuring costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Company recognizes the following changes in the net defined benefit obligation under "Administrative expenses" in the parent company statements of comprehensive income:
- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- Net interest expense or income

Income Taxes

*Current Income Tax.* Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted at the balance sheet date.

*Deferred Income Tax.* Deferred income tax is recognized on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from excess minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable income will be available against which the deductible temporary differences and the carryforward benefits of excess MCIT and unused NOLCO can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred income tax asset to be recorded.