

# COVER SHEET

for  
**AUDITED FINANCIAL STATEMENTS**

SEC Registration Number

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**COMPANY NAME**

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

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

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Form Type

A	C	F	S
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Department requiring the report

C	R	M	D
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Secondary License Type, If Applicable

N	/	A
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**COMPANY INFORMATION**

Company's Email Address	Company's Telephone Number	Mobile Number
<b>info@libertygroup.com.ph</b>	<b>(02) 892-5011</b>	
No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
<b>451</b>	<b>Last Wednesday of May</b>	<b>December 31</b>

**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
<b>Jose Ma. Lopez</b>	<b>jmlopez@pltdtssl.net</b>	<b>(02) 892-5011</b>	

**CONTACT PERSON'S ADDRESS**

<b>7F Liberty Building, 835 A. Arnaiz Avenue, Makati City</b>
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**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.



## **INDEPENDENT AUDITOR'S REPORT**

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

### **Opinion**

We have audited the consolidated financial statements of Liberty Flour Mills, Inc. and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2017 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 Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Key Audit Matters**

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



We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

### ***Provisions and Contingencies***

The Group is involved in legal proceedings and tax assessments. This matter is significant to our audit because the determination of whether any provision should be recognized and the estimation of the potential liability resulting from these assessments require significant judgment and estimate by management. The inherent uncertainty over the outcome of these matters is brought about by the differences in the interpretation and implementation of the relevant laws and regulations.

The Group's disclosures about provisions and contingencies are included in Notes 3 and 20 to the consolidated financial statements.

### ***Audit response***

We involved our internal specialist in the evaluation of management's assessment on whether any provision for tax contingencies should be recognized, and the estimation of such amount. We discussed with management the status of the tax assessment, and obtained correspondences with the relevant tax authorities and opinions of the Group's external legal/tax counsels. We evaluated the tax position of the Group by considering the tax laws, rulings and jurisprudence.

### **Other Information**

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017 are expected to be made available to us after the date of this auditor's report.

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

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



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

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

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

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

## **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are



inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

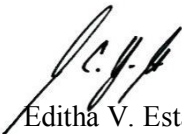
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

The engagement partner on the audit resulting in this independent 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



**LIBERTY FLOUR MILLS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 4)	<b>₱131,985,809</b>	₱158,850,917
Receivables (Notes 5 and 23)	<b>763,094,723</b>	790,358,136
Financial assets at fair value through profit or loss (Note 6)	<b>167,359,493</b>	51,148,926
Inventories (Note 7)	<b>205,260,816</b>	252,753,859
Prepaid expenses and other current assets (Note 8)	<b>74,946,270</b>	71,896,654
<b>Total Current Assets</b>	<b>1,342,647,111</b>	1,325,008,492
<b>Noncurrent Assets</b>		
Available-for-sale investments (Note 9)	<b>1,270,220,532</b>	1,242,445,589
Investment properties (Notes 10, 12 and 20)	<b>997,368,535</b>	749,674,395
Property, plant and equipment (Note 11)	<b>66,586,675</b>	78,121,770
Deferred tax assets - net (Note 21)	<b>28,973,208</b>	35,072,460
Accrued rent (Note 24)	<b>4,717,838</b>	2,666,367
Other noncurrent assets	<b>3,228,836</b>	8,038,729
<b>Total Noncurrent Assets</b>	<b>2,371,095,624</b>	2,116,019,310
<b>TOTAL ASSETS</b>	<b>₱3,713,742,735</b>	₱3,441,027,802
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Notes payable (Notes 10 and 12)	<b>₱670,459,530</b>	₱390,913,000
Accounts payable and other current liabilities (Note 13 )	<b>155,690,445</b>	118,857,615
Income tax payable	<b>1,039,648</b>	10,274,242
Current portion of:		
Deposits on long-term leases (Note 24)	<b>9,789,559</b>	6,951,877
Unearned rental income (Note 24)	<b>3,646,696</b>	3,122,992
<b>Total Current Liabilities</b>	<b>840,625,878</b>	530,119,726
<b>Noncurrent Liabilities</b>		
Net retirement plan liability (Note 19)	<b>99,768,882</b>	110,862,789
Deposits on long-term leases - net of current portion (Note 24)	<b>5,465,460</b>	5,462,809
Deferred tax liability - net (Note 21)	<b>2,594,009</b>	-
Unearned rental income - net of current portion (Note 24)	<b>599,761</b>	570,837
<b>Total Noncurrent Liabilities</b>	<b>108,428,112</b>	116,896,435
<b>Total Liabilities</b>	<b>949,053,990</b>	647,016,161

(Forward)



	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
<b>Equity</b>		
Capital stock (Note 14)	<b>₱1,500,000,000</b>	₱1,500,000,000
Other components of equity:		
Fair value changes on available-for-sale investments (Note 9)	<b>18,350,529</b>	42,734,379
Accumulated remeasurement losses on retirement benefits (Note 19)	<b>(3,183,501)</b>	(8,056,691)
Retained earnings (Note 14)	<b>1,249,521,717</b>	1,259,333,953
<b>Total Equity</b>	<b>2,764,688,745</b>	2,794,011,641
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>₱3,713,742,735</b>	₱3,441,027,802

*See accompanying Notes to Consolidated Financial Statements.*



**LIBERTY FLOUR MILLS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	Years Ended December 31		
	2017	2016	2015
<b>REVENUE</b>			
Sales (Note 23)	₱737,482,353	₱918,927,506	₱1,252,982,557
Rental income (Notes 10 and 23)	110,618,692	100,272,253	101,942,963
	<b>848,101,045</b>	1,019,199,759	1,354,925,520
<b>COST OF SALES AND SERVICES</b>			
Cost of sales (Note 15)	557,356,484	652,652,917	893,198,353
Cost of services (Note 10)	40,445,323	38,759,100	39,187,353
	<b>597,801,807</b>	691,412,017	932,385,706
<b>GROSS PROFIT</b>	<b>250,299,238</b>	327,787,742	422,539,814
<b>OPERATING EXPENSES</b> (Note 16)			
Administrative expenses	(135,405,991)	(142,650,720)	(153,219,581)
Selling expenses	(35,898,667)	(40,112,016)	(40,367,507)
<b>OTHER INCOME (CHARGES)</b>			
Dividend income (Notes 6 and 9)	36,043,582	23,887,361	19,623,793
Interest income (Notes 4, 5, and 9)	27,876,976	29,537,071	29,368,153
Interest expense (Notes 7, 12 and 24)	(12,593,839)	(10,033,182)	(11,331,974)
Other charges - net (Notes 6, 9 and 18)	(6,284,081)	(31,428,234)	(26,337,453)
<b>INCOME BEFORE INCOME TAX</b>	<b>124,037,218</b>	156,988,022	240,275,245
<b>PROVISION FOR INCOME TAX</b> (Note 21)			
Current	14,744,703	58,855,636	77,295,309
Deferred	6,604,751	(32,085,585)	(401,342)
	<b>21,349,454</b>	26,770,051	76,893,967
<b>NET INCOME</b>	<b>102,687,764</b>	130,217,971	163,381,278
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:			
Unrealized fair value gain (loss) on available-for-sale investments (Note 9)	(22,869,400)	34,247,823	(84,704,073)
Fair value gains realized during the year through sale or impairment of AFS investments	(1,514,450)	(4,186,517)	7,428,445
	<b>(24,383,850)</b>	30,061,306	(77,275,628)
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:			
Remeasurement gains (losses) on retirement benefits (Note 19)	6,961,700	26,120,812	(14,642,154)
Income tax effect	(2,088,510)	2,848,547	(201,398)
	<b>4,873,190</b>	28,969,359	(14,843,552)
<b>TOTAL OTHER COMPREHENSIVE INCOME (LOSS)</b>	<b>(19,510,660)</b>	59,030,665	(92,119,180)
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>₱83,177,104</b>	₱189,248,636	₱71,262,098
<b>BASIC/DILUTED EARNINGS PER SHARE</b> (Note 22)	<b>₱0.68</b>	₱0.87	₱1.09

*See accompanying Notes to Consolidated Financial Statements.*





**LIBERTY FLOUR MILLS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015**

	Capital Stock (Note 14)			Other Components of Equity			Retained Earnings (Note 14)		Stock Treasury (Note 14)	Total
	Issued	Stock Dividends Distributable	Additional Paid-in Capital	Fair Value Changes on Available-for-sale Investments (Note 9)	Accumulated Remeasurement Gains (Losses) on Retirement Benefits (Note 19)	Appropriated	Unappropriated			
<b>BALANCES AT JANUARY 1, 2017</b>	<b>₱1,500,000,000</b>	<b>₱-</b>	<b>₱-</b>	<b>₱42,734,379</b>	<b>(₱8,056,691)</b>	<b>₱-</b>	<b>₱1,259,333,953</b>	<b>₱-</b>	<b>₱2,794,011,641</b>	
Profit for the year	-	-	-	-	-	-	102,687,764	-	102,687,764	
Other comprehensive income (loss)	-	-	-	(24,383,850)	4,873,190	-	-	-	(19,510,660)	
Total comprehensive income (loss)	-	-	-	(24,383,850)	4,873,190	-	102,687,764	-	83,177,104	
Cash dividends declared (Note 14)	-	-	-	-	-	-	(112,500,000)	-	(112,500,000)	
<b>BALANCES AT DECEMBER 31, 2017</b>	<b>₱1,500,000,000</b>	<b>₱-</b>	<b>₱-</b>	<b>₱18,350,529</b>	<b>(₱3,183,501)</b>	<b>₱-</b>	<b>₱1,249,521,717</b>	<b>₱-</b>	<b>₱2,764,688,745</b>	
<b>BALANCES AT JANUARY 1, 2016</b>	<b>₱1,500,000,000</b>	<b>₱-</b>	<b>₱-</b>	<b>₱12,673,073</b>	<b>(₱37,026,050)</b>	<b>₱-</b>	<b>₱1,354,115,982</b>	<b>₱-</b>	<b>₱2,829,763,005</b>	
Profit for the year	-	-	-	-	-	-	130,217,971	-	130,217,971	
Other comprehensive income	-	-	-	30,061,306	28,969,359	-	-	-	59,030,665	
Total comprehensive income	-	-	-	30,061,306	28,969,359	-	130,217,971	-	189,248,636	
Cash dividends declared (Note 14)	-	-	-	-	-	-	(225,000,000)	-	(225,000,000)	
<b>BALANCES AT DECEMBER 31, 2016</b>	<b>₱1,500,000,000</b>	<b>₱-</b>	<b>₱-</b>	<b>₱42,734,379</b>	<b>(₱8,056,691)</b>	<b>₱-</b>	<b>₱1,259,333,953</b>	<b>₱-</b>	<b>₱2,794,011,641</b>	
<b>BALANCES AT JANUARY 1, 2015</b>	<b>₱500,000,000</b>	<b>₱374,996,190</b>	<b>₱-</b>	<b>₱89,948,701</b>	<b>(₱22,182,498)</b>	<b>₱1,820,000,000</b>	<b>₱175,510,685</b>	<b>(₱2,680)</b>	<b>₱2,938,270,398</b>	
Profit for the year	-	-	-	-	-	-	163,381,278	-	163,381,278	
Other comprehensive loss	-	-	-	(77,275,628)	(14,843,552)	-	-	-	(92,119,180)	
Total comprehensive income (loss)	-	-	-	(77,275,628)	(14,843,552)	-	163,381,278	-	71,262,098	
Reversal of appropriation	-	-	-	-	-	(1,820,000,000)	1,820,000,000	-	-	
Stock dividends declared	999,996,190	(374,996,190)	-	-	-	-	(625,000,000)	-	-	
Cash dividends declared (Note 14)	-	-	-	-	-	-	(174,997,842)	-	(174,997,842)	
Issuance of shares	3,810	-	34,341	-	-	-	-	2,680	40,831	
Stock issuance cost	-	-	(34,341)	-	-	-	(4,778,139)	-	(4,812,480)	
<b>BALANCES AT DECEMBER 31, 2015</b>	<b>₱1,500,000,000</b>	<b>₱-</b>	<b>₱-</b>	<b>₱12,673,073</b>	<b>(₱37,026,050)</b>	<b>₱-</b>	<b>₱1,354,115,982</b>	<b>₱-</b>	<b>₱2,829,763,005</b>	

See accompanying Notes to Consolidated Financial Statements.



**LIBERTY FLOUR MILLS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Years Ended December 31		
	2017	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax	₱124,037,217	₱156,988,022	₱240,275,245
Adjustments to reconcile profit before income tax to net cash flows:			
Dividend income (Notes 6 and 9)	(36,043,582)	(23,887,361)	(19,623,793)
Depreciation and amortization (Notes 10 and 11)	30,445,352	32,293,449	31,140,721
Interest income (Notes 4, 5 and 9)	(27,876,976)	(29,537,071)	(29,368,153)
Interest expense (Notes 7, 12 and 24)	12,593,839	10,033,182	11,331,974
Fair value loss (gain) on financial assets at fair value through profit or loss (Notes 6 and 18)	5,351,084	(1,858,139)	10,325,326
Change in net retirement liability (Note 19)	(4,132,207)	(319,993)	(1,172,434)
Gain (loss) on:			
Sale of available-for-sale investments (Note 18)	(1,514,450)	(4,186,517)	–
Disposal of property, plant and equipment	(34,928)	–	–
Retirement of investment properties (Note 18)	–	10,197,731	–
Impairment loss on available-for-sale investments (Notes 9 and 18)	–	29,600,000	18,428,445
Working capital changes:			
Decrease (increase) in:			
Receivables	29,459,008	43,959,858	161,234,718
Inventories	47,493,043	(33,971,099)	201,031,323
Accrued rent	(2,051,471)	1,397,421	1,308,664
Prepaid expenses and other current assets	(11,675,330)	(5,110,991)	(5,159,132)
Increase (decrease) in:			
Accounts payable and other current liabilities	15,476,944	60,837,013	5,551,981
Deposits on long-term leases	2,840,333	(572,283)	(1,614,970)
Unearned rental income	552,628	1,514,036	(641,129)
Liabilities under trust receipts	–	–	(424,200,171)
Cash generated from operations	184,920,504	247,377,258	198,848,615
Interest received	27,876,976	29,537,071	29,368,153
Income taxes paid	(15,029,690)	(66,079,417)	(88,000,845)
Net cash provided by operating activities	197,767,790	210,834,912	140,215,923
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of:			
Investment properties (Note 10)	(262,262,085)	(84,519,709)	(11,418,542)
Financial assets at fair value through profit or loss	(165,556,484)	(45,363,655)	(34,500,808)
Available-for-sale investments (Note 9)	(78,556,293)	(100,005,000)	(49,997,500)
Property, plant and equipment (Note 11)	(4,220,141)	(3,883,248)	(6,204,141)
Proceeds from:			
Sale of financial assets at fair value through profit or loss	43,994,833	42,926,111	35,266,911
Sale of available-for-sale investments	27,911,950	24,186,517	55,000,000
Disposal of property, plant and equipment	149,095	–	–
Dividend received	36,043,582	23,887,361	19,623,793
Decrease (increase) in other noncurrent assets	4,573,553	(27,123,771)	(29,046,604)
Net cash used in investing activities	(397,921,990)	(169,895,394)	(21,276,891)

(Forward)



	<b>Years Ended December 31</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from availment of bank loans (Note 12)	<b>₱302,900,000</b>	₱616,283,000	₱462,200,000
Dividends paid	<b>(93,663,599)</b>	(227,650,674)	(168,979,972)
Loan payments (Note 12)	<b>(23,353,470)</b>	(422,147,778)	(521,533,333)
Interest paid	<b>(12,593,839)</b>	(10,911,284)	(11,471,011)
Payment of stock issuance cost (Note 14)	-	-	(4,812,480)
Proceeds from issuance of shares of stocks (Note 14)	-	-	40,831
Net cash provided by (used in) financing activities (Note 12)	<b>173,289,092</b>	(44,426,736)	(244,555,965)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(26,865,108)</b>	(3,487,218)	(125,616,933)
<b>CASH AND CASH EQUIVALENTS</b>			
<b>AT BEGINNING OF YEAR</b>	<b>158,850,917</b>	162,338,135	287,955,068
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>₱131,985,809</b>	₱158,850,917	₱162,338,135

*See accompanying Notes to Consolidated Financial Statements.*



# LIBERTY FLOUR MILLS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 1. Corporate Information

Liberty Flour Mills, Inc. (the Parent Company) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on December 26, 1958. On December 28, 2008, the Parent Company extended its corporate life for another 50 years. The Parent Company is engaged primarily in the manufacture of flour, utilization of its by-products and the distribution and sales of its produce. The common shares of the Parent Company were listed beginning January 24, 1966 and have been traded in the Philippine Stock Exchange (PSE) since then. Following are the Parent Company's subsidiaries and the respective ownership as at December 31, 2017 and 2016:

	Country of Incorporation	Principal Activities	Percentage of Ownership
LFM Properties Corporation (LPC) <sup>(a)</sup>	Philippines	Leasing out office spaces and condominium units	100.00
Liberty Engineering Corporation (LEC) <sup>(b)</sup>	Philippines	Sale, lease and purchase of equipment and machinery	100.00

(a) Registered with the SEC on December 18, 1995.

(b) Registered with the SEC on December 10, 1965. Extended its corporate life for another 50 years from December 31, 2015.

The Parent Company and its subsidiaries are collectively referred to in the consolidated financial statements as "the Group". The registered office of the Group is 7F Liberty Building, 835 A. Arnaiz Avenue, Makati City.

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

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### 2. Significant Accounting and Financial Reporting Policies

#### Basis of Preparation

The consolidated financial statements of the Group are prepared in accordance with Philippine Financial Reporting Standards (PFRSs).

The consolidated 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 consolidated financial statements are presented in Philippine peso (Peso), which is the Group's functional and presentation currency, and rounded to the nearest Peso except as otherwise indicated.

#### Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at December 31 of each year.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.



Specifically, the Group controls an investee if and only if the following criteria are met:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, and income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, and non-controlling interest and other components of equity, while any resulting gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

#### Changes in Accounting Policies and Disclosures

The Group 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 Group's consolidated financial statements.



- Amendments to Philippine Accounting Standards (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 Group has provided the required information in Note 25 to the consolidated financial statements. As allowed under the transition provisions of the standard, the Group 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 Group applied the amendments retrospectively. However, their application has no effect on the Group's financial position and performance as the Group 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 Group intends to adopt the following pronouncements when they become effective. Adoption of these pronouncements is not expected to have a significant impact on the Group's consolidated 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 Group 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 Group is currently assessing the impact of adopting this standard.



- 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 Group 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 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 Group presents assets and liabilities in the consolidated statements 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 balance sheet date, 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 balance sheet date.

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 balance sheet date, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the balance sheet date.

All other liabilities are classified as noncurrent.

Deferred tax assets and liabilities are classified as noncurrent assets and liabilities, respectively.

#### Fair Value Measurement

The Group measures financial instruments, such as financial assets at FVPL and AFS investments, at fair value at the end of balance sheet 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:

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

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

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

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



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

- Level 1 - Quoted (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 consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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

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

The Group 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 Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

#### 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 investments, 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 Group 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 Group recognizes the difference between the transaction price and the fair value (a “Day 1” difference) in the consolidated 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



consolidated statements of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the “Day 1” 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 Group 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 Group’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 less impairment. 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 Group’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 Group’s AFS investments consist of quoted and unquoted equity securities and debt securities.

*Impairment of Financial Assets.* The Group 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 Group 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 Group about loss events such as but not limited to significant financial difficulty of the counterparty, a breach of contract, such as a default or delinquency in interest or principal payments, probability that the borrower will enter bankruptcy or other financial re-organization. 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 increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. 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.

The determination of what is “significant” or “prolonged” requires judgment. In making this judgment, the Group evaluates, among other factors, the deviation or extent to which the fair value of an investment is less than its cost.

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

*Derecognition.* 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 Group 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 Group 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 Group 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 Group’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 Group 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 and Measurement.* Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, 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, net of directly attributable transaction costs.



The Group's financial liabilities consist only of loans and borrowings. As of December 31, 2017 and 2016, the Group's loans and borrowings consist of notes payable, accounts payable and other current liabilities and deposits on long-term leases. The Group has no financial liabilities at FVPL or derivatives designated as hedging instruments in an effective hedge and no freestanding or embedded derivatives as of December 31, 2017 and 2016.

*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. Amortized cost is calculated by taking into account any discount or premium or acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is recognized in profit or loss.

*Derecognition.* 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 consolidated statements 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 using moving-average for finished goods) and net realizable value (NRV). Cost of finished goods such as flour and mill feeds 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 and Other Current Assets

*Prepayments.* Prepayments are 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. Prepayments that are expected to be realized within 12 months from the balance sheet date are classified as current assets, otherwise these are classified as other noncurrent assets.

*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.



*Advances to suppliers.* Advances to suppliers represents deposits on order placement to suppliers.

*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 included as part of “Accounts payable and other current liabilities” in the consolidated statements 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 included as part of “Prepaid expenses and other current assets” in the consolidated statements of financial position to the extent of the recoverable amount.

#### Investment Properties

Investment properties consist of properties (land or a building or part of a building or a combination) held to earn rentals or for capital appreciation or both, rather than for:

- a. use in the production or supply of goods or services or for administrative purposes; or
- b. sale in the ordinary course of business.

These assets, except for land, are measured at cost, including transaction costs less accumulated depreciation and accumulated 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. Land is carried at cost (initial purchase price and other cost directly attributable to such property) less any impairment in value.

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

	Number of Years
Condominium units	10–25
Building and building improvements	10

Investment properties are derecognized either when they have been disposed of or when the investment properties are permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the consolidated statements of comprehensive income in the period of derecognition.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Construction in progress is stated at cost. Such cost includes cost of constructive and other direct costs, cost of replacing part of the investment property and borrowing costs for long-term construction projects if the recognition criteria are met. Construction in progress is not depreciated until such time when the relevant assets are substantially completed and available for its intended use.

#### Property, Plant and Equipment

Property, plant and equipment are carried at cost less accumulated depreciation and 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 costs 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
Land improvements	20
Mill machinery and equipment	10
Building and building equipment	10–20
Transportation equipment	3–5
Other equipment	2–5

#### Impairment of Nonfinancial Assets

The carrying values of nonfinancial assets (investment properties, property, plant and equipment and other 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 Parent 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 (Loss)

Other comprehensive income (loss) comprises items of income and expense (including items previously presented under the consolidated statement of changes in equity) that are not recognized in profit or loss for the year in accordance with PFRSs. Other comprehensive income (loss) of the Group 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 net income or loss, dividend distributions, prior period adjustments, effects of the changes in accounting policy and other capital adjustments.

### Dividend Distribution

Dividends on common shares are deducted from unappropriated retained earnings when approved by the shareholders of the Parent Company, except for stock dividends, which also require the approval for issuance of shares by the SEC. Cash dividends are recognized as a liability while stock dividends are recognized as additional issued shares. Stock dividends declared but not yet issued are presented as “Stock dividends distributable” in the equity section of the consolidated statements of financial position. Dividends for the year that are approved after the balance sheet date are dealt with as an event after the balance sheet date.

### Stock Issuance Costs

Stock issuance costs are incremental external costs directly attributable to an equity transaction. The transaction costs of an equity transaction are accounted for as a deduction from additional paid-in capital, or from retained earnings when there is no available additional paid-in capital, net of any related income tax benefit.

### Basic/Diluted Earnings per Share

Basic earnings per share are computed by dividing net income for the year by the weighted average number of common shares, excluding treasury stock, outstanding during the year.

Diluted earnings per share is calculated by dividing the income for the year attributable to common stockholders by the weighted average number of shares outstanding during the year, excluding treasury shares and adjusted for the effects of all potentially dilutive common shares, if any. The Parent Company has no dilutive shares.

In determining both the basic and diluted earnings per share, the effect of stock dividends, if any, is accounted for retroactively.

### Revenue

Revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction will flow to the Group 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 Group 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 consolidated statements 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 terms. Excess of rental income recognized using the straight-line basis over the rental income based on the terms of lease contract is recognized as an asset under the account “Accrued rent”. Rentals collected but not yet earned are recognized as liability under the account “Unearned rental income”.

Deposits on long-term leases are initially recognized at fair value and subsequently measured at amortized cost where material. Any difference between the initial fair value and the nominal amount is recorded as component of “Unearned rental income” account and is recognized as rental income on a straight-line basis over the lease term.



The accretion of the fair value of deposits on long-term leases to its nominal amount is recorded under “Interest expense” account using the effective interest rate method.

*Interest Income.* Interest income is recognized using the effective interest method.

*Dividend Income.* Dividend income is recognized when the Group’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.

*Costs of Services.* Cost of services includes expenses incurred for the generation of revenue from rental income. Cost of services is expensed as incurred.

*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.

#### Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded. Borrowing costs include interest charges, foreign exchange differentials that qualify for capitalization and other costs incurred in connection with the borrowing of funds. All other borrowing costs 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.

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

#### Retirement Benefit Costs

The Group 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 consolidated 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 Group recognizes related restructuring costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognizes the following changes in the net defined benefit obligation under “Administrative expenses” in the consolidated 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.

Current income tax for the current and prior periods shall, to the extent unpaid, be recognized as a liability under “Income tax payable” account in the consolidated statements of financial position.

If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess shall be recognized as an asset under “Prepaid expenses and other current assets” account in the consolidated statements of financial position.

*Deferred Tax.* Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at balance sheet date.

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

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



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

#### Provisions

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

If the effect of the time value of money is material, provisions are determined by discounting the 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 Group expects a provision or loss to be reimbursed, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain and its amount is estimable. The expense relating to any provision is recognized in profit or loss, net of reimbursement.

#### Contingencies

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

#### Segment Reporting

The Group'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 27 to the consolidated 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 Group's financial position at the balance sheet date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to consolidated financial statements when material.

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### **3. Significant Accounting Judgments and Estimates**

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

In the opinion of management, the consolidated 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 Group classifies a financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual agreement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated statements of financial position.

*Classification of Leases- Group as Lessor.* The Group has entered into the property leases where it has determined that the risk and rewards related to those properties are retained by the Group. 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 Group's relationship with the customer, the customer's payment behavior, known market factors and historical loss experiences.

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

Since the Group has only three customers, the Group 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 ₱763.09 million and ₱790.36 million as of December 31, 2017 and 2016, respectively (see Note 5).

*Impairment of AFS Investments.* In the case of equity investments classified as AFS investments, management evaluates the presence of significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The Group treats 'significant' generally as a fair value decline of 20% or more below its cost and 'prolonged' generally as greater than six months against the period in which the fair value has been below its original cost. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss - is removed from OCI and recognized in profit or loss. Impairment losses on AFS financial assets are not reversed through profit or loss; increases in their fair value after impairment are recognized in OCI.

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

Any indication of deterioration in these factors can have a negative impact on their fair value. The Group assessed that certain AFS investments were impaired as of December 31, 2017. Accordingly, the Group recognized impairment losses on AFS equity investments amounting to ₱29.60 million in 2016 and ₱18.43 million in 2015 included under "Other income (charges) - net" in the consolidated statements of comprehensive income. No impairment loss was recognized in 2017 (see Notes 9 and 18). The allowance for impairment loss on AFS investment amounted to ₱40.60 million as of December 31, 2017 and 2016. The carrying value of AFS investments amounted to ₱1,270.22 million and ₱1,242.45 million as of December 31, 2017 and 2016, respectively (see Note 9).



*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 amounting to ₱11.82 million approximate their fair values (see Note 9 and 25).

The fair values of the unquoted equity securities have been estimated using the adjusted net asset method.

*Recognition of Deferred Income Tax Assets.* The Group reviews the carrying amounts of deferred income tax assets at each balance sheet date and adjusts the balance to the extent that it is 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 Group recognize deferred income tax assets on deductible temporary differences amounting to ₱30.26 million and ₱36.08 million, respectively (see Note 21).

As of December 31, 2017 and 2016, the Group did not recognize deferred tax assets on deductible temporary differences amounting to ₱18.41 million and ₱18.76 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 tax assets to be utilized (see Note 21).

*Estimation of Retirement Benefits Liability 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. All assumptions are reviewed at each balance sheet date.

The Group 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 Group 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 Group believes that the assumptions are reasonable and appropriate, significant differences between actual experience and assumptions may materially affect the cost of employee benefits and related obligation. The carrying value of the Group's net retirement plan liability amounted to ₱99.77 million and ₱110.86 million as of December 31, 2017 and 2016, respectively (see Note 19).

*Provisions and Contingencies.* The Group is involved legal proceedings and tax assessments. The determination of whether any provision should be recognized and the estimation of the potential liability resulting from these assessments require significant judgment and estimates by management. The inherent uncertainty over the outcome of these matters is brought about by the differences in the interpretation and implementation of the laws and regulations. The Group 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 judgment and 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	<b>₱87,316,598</b>	₱86,095,947
Cash equivalents	<b>44,669,211</b>	72,754,970
	<b>₱131,985,809</b>	₱158,850,917

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 Group and earn interest at the respective short-term investment rates.

Interest income earned on cash in banks and cash equivalents amounted to ₱1.96 million in 2017, ₱2.42 million in 2016 and ₱2.28 million in 2015.

#### 5. Receivables

	2017	2016
Trade receivables from related parties (see Note 23)	<b>₱704,138,925</b>	₱720,267,316
Receivable from a broker	<b>30,630,995</b>	27,027,533
Loan receivable	<b>12,500,000</b>	27,593,830
Rent receivables from:		
Third parties	<b>4,437,625</b>	4,637,991
Related parties (see Note 23)	<b>122,088</b>	473,833
Advances to officers and employees (see Note 23)	<b>948,906</b>	2,998,984
Others	<b>11,415,105</b>	8,457,570
	<b>764,193,644</b>	791,457,057
Less allowance for doubtful accounts	<b>1,098,921</b>	1,098,921
	<b>₱763,094,723</b>	₱790,358,136

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

Receivable from a broker represents the Group's deposit to its agent of marketable securities, which are liquidated through acquisition of additional investments in financial instruments for the Group.

Loan receivable are interest-bearing loans to third parties which are due and demandable.

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

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

Others include the Parent Company's receivable from its retirement plan (see Note 23).

Interest income on these loans amounted to ₱1.29 million in 2017, ₱2.12 million in 2016 and ₱0.53 million in 2015.

Total intercompany receivables eliminated upon consolidation amounts to ₱0.08 million in 2017 and ₱2.60 million in 2016.





Movements in allowance for doubtful accounts are as follows:

	2017	2016
Balance at beginning of year	<b>₱1,098,921</b>	₱1,600,000
Write-off	-	(501,079)
Balance at end of year	<b>₱1,098,921</b>	₱1,098,921

Allowance for doubtful accounts on other receivables was determined based on specific and collective assessments by the Group.

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

	2017	2016
Balance at beginning of year	<b>₱51,148,926</b>	₱46,853,243
Movement during the year:		
Additions	<b>165,556,484</b>	45,363,655
Disposals	<b>(43,994,833)</b>	(42,926,111)
Fair value gain (loss)	<b>(5,351,084)</b>	1,858,139
Balance at end of year	<b>₱167,359,493</b>	₱51,148,926

Fair value gain (loss) on financial assets at FVPL are included under “Other charges (income) - net” in the consolidated statements of comprehensive income (see Note 18).

Dividend income earned on financial assets at FVPL amounted to ₱8.33 million in 2017, ₱1.21 million in 2016 and ₱1.27 million in 2015.

#### 7. Inventories

	2017	2016
At cost:		
Flour and mill feeds	<b>₱10,913,023</b>	₱17,557,062
Wheat grains	<b>185,345,549</b>	190,517,372
Supplies	<b>9,002,244</b>	9,252,042
	<b>205,260,816</b>	217,326,476
Inventories in-transit	-	35,427,383
	<b>₱205,260,816</b>	₱252,753,859

Under the terms of agreements covering trust receipts, certain inventories have been released to the Group 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 (see Note 13). Interest expense recognized on liabilities under trust receipts amounted to ₱1.16 million in 2017 (based on annual interest of 2.5% to 3.50%), ₱1.86 million in 2016 (based on annual interest of 2.0% to 2.50%) and ₱5.47 million in 2015 (based on annual interest of 2.00% to 2.50%).

In 2016, inventories in-transit include wheat grains owned but not yet received by the Group as of the balance sheet date. There are no inventories in-transit as of December 31, 2017.



Costs of inventories recognized as expenses presented under “Cost of sales” in the consolidated 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
Input VAT	₱22,522,680	₱8,419,695
Store supplies	22,503,832	21,133,316
Advances to suppliers	15,254,941	37,828,463
Prepayments	14,664,817	4,515,180
	<b>₱74,946,270</b>	<b>₱71,896,654</b>

Prepayments include direct costs from importation which eventually form part of inventory cost of wheat grains. It also includes taxes and licenses, insurances for amortization, and other supplies for issuance.

#### 9. Available-for-Sale Investments

	2017	2016
Debt securities	₱571,359,070	₱551,194,040
Equity securities:		
Quoted	687,045,754	679,435,841
Unquoted	52,415,708	52,415,708
	<b>739,461,462</b>	<b>731,851,549</b>
Less allowance for impairment	<b>(40,600,000)</b>	<b>(40,600,000)</b>
	<b>₱1,270,220,532</b>	<b>₱1,242,445,589</b>

The Group recognized impairment loss on AFS investments amounting to ₱29.60 million in 2016 and ₱18.48 million (nil in 2017) (see Note 18). AFS investments include unquoted equity securities with a cost of ₱40.60 million that have been fully impaired as of December 31, 2017 and 2016.

Interest income earned on debt securities amounted to ₱24.62 million in 2017, ₱25.00 million in 2016 and ₱26.56 million in 2015. Dividend income earned on equity securities amounted to ₱27.71 million in 2017, ₱22.68 million in 2016 and ₱18.35 million in 2015.

In 2017, the Group sold AFS investments with a carrying value of ₱27.14 million for total proceeds of ₱27.91 million. Accordingly, the fair value gain of ₱1.51 million previously recognized on these investments, were realized and recognized as gain on sale of AFS investments (see Note 18).

Fair value changes on AFS investments follow:

	2017	2016
Balance at beginning of year	₱42,734,379	₱12,673,073
Movement during the year:		
Fair value gain (loss) recognized as other comprehensive income	(22,869,400)	34,247,823
Fair value gains realized during the year through sale of AFS investments (see Note 18)	(1,514,450)	(4,186,517)
	<b>(24,383,850)</b>	<b>30,061,306</b>
Balance at end of year	<b>₱18,350,529</b>	<b>₱42,734,379</b>



## 10. Investment Properties

2017					
	Land (see Note 12)	Building and Improvements (see Note 12)	Condominium Unit	Construction in Progress	Total
<b>Cost</b>					
Balance at beginning of year	P492,651,788	P398,615,076	P10,399,120	P115,499,384	P1,017,165,368
Additions	-	18,312,826	-	243,949,259	262,262,085
Balance at end of year	492,651,788	416,927,902	10,399,120	359,448,643	1,279,427,453
<b>Accumulated Depreciation</b>					
Balance at beginning of year	-	257,091,853	10,399,120	-	267,490,973
Depreciation	-	14,567,945	-	-	14,567,945
Balance at end of year	-	271,659,798	10,399,120	-	282,058,918
<b>Net book values</b>	<b>P492,651,788</b>	<b>P145,268,104</b>	<b>P-</b>	<b>P359,448,643</b>	<b>P997,368,535</b>
2016					
	Land (see Note 12)	Building and Improvements (see Note 12)	Condominium Unit	Construction in Progress	Total
<b>Cost</b>					
Balance at beginning of year	P492,651,788	P418,879,226	P10,399,120	P12,017,752	P933,947,886
Additions	-	-	-	103,481,632	103,481,632
Retirement	-	(20,094,947)	-	-	(20,094,947)
Adjustments	-	(169,203)	-	-	(169,203)
Balance at end of year	492,651,788	398,615,076	10,399,120	115,499,384	P1,017,165,368
<b>Accumulated Depreciation</b>					
Balance at beginning of year	-	251,520,031	10,399,120	-	261,919,151
Depreciation	-	15,469,038	-	-	15,469,038
Retirement	-	(9,897,216)	-	-	(9,897,216)
Balance at end of year	-	257,091,853	10,399,120	-	267,490,973
<b>Net book values</b>	<b>P492,651,788</b>	<b>P141,523,223</b>	<b>P-</b>	<b>P115,499,384</b>	<b>P749,674,395</b>

Construction in progress pertains to costs incurred for the construction of Liberty Plaza. The amount of general borrowing costs capitalized in 2017 and 2016 amounted to P8.12 million and P1.89 million, respectively. The rate used to determine the amount of borrowing costs eligible for capitalization was 3.43%, and 2.39% in 2017 and 2016, respectively, which were determined using the weighted effective interest rate of the general borrowings.

The Group leases out spaces in its building and condominium units under various operating leases (see Note 24).

Rental income and the related expenses (i.e., real property taxes, depreciation, utilities and insurance) recognized on the office spaces of the Group's building and condominium units that are under operating leases are as follows:

	2017	2016	2015
Rental income	P110,618,692	P100,272,253	P101,942,963
Direct operating expenses:			
Depreciation and amortization	14,567,945	15,469,038	16,037,582
Outside services	7,601,468	6,494,336	5,492,973
Real estate tax	6,924,466	6,924,466	7,476,362
Communication, light and water	5,927,674	6,455,808	7,700,768
Repairs and maintenance	4,467,680	2,711,684	1,344,339
Insurance and others	956,090	703,768	1,135,329
	40,445,323	38,759,100	39,187,353
	P70,173,369	P61,513,153	P62,755,610



Direct operating expenses incurred for non-income generating properties amounted to ₱1.50 million in 2017, ₱1.51 million in 2016 and ₱1.30 million in 2015.

The Group has refundable deposits for utilities installation on its investment properties amounting to ₱1.87 million and ₱2.29 million as of December 31, 2017 and 2016, respectively, presented as part of “Other noncurrent assets” in the consolidated statements of financial position.

The aggregate fair value of investment properties, excluding construction in progress, amounted to ₱3.54 billion as of December 31, 2017 and 2016. These have been determined based on valuation performed by a qualified and independent appraiser from 2013 to 2016. 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:

	Current use	Valuation technique	Significant unobservable input
Land	Commercial Parking space Capital appreciation	Sales Comparison Approach	Adjusted sales price of comparable properties
Building and building improvements	Commercial	Cost Approach and Sales Comparison Approach	Current market prices of similar materials, labor, contractors’ overhead and manufactured equipment and Adjusted sales price of comparable properties
Condominium unit	Residential	Sales Comparison Approach	Adjusted sales price of comparable properties

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

The Group’s management assessed that the fair values of these investment properties taken in 2013 to 2016 approximates its current fair values as of December 31, 2017 and 2016 as no significant changes on the properties have taken place since the latest appraisal, or will take place in the near future, in the market, economic or legal environment in which the Group operates or in the market to which the investment property is 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.

Land and building owned by the Group with an aggregate carrying value of ₱115.0 million as of December 31, 2017 served as collateral to secure the loans obtain from banks (see Note 12).



## 11. Property, Plant and Equipment

	2017						
	Land Improvements	Mill Machinery and Equipment	Building and Building Equipment	Transportation Equipment	Leasehold Improvements	Other Equipment	Total
<b>Cost</b>							
Beginning balances	₱25,019,723	₱209,999,881	₱114,267,918	₱46,356,931	₱839,842	₱36,147,971	₱432,632,266
Additions	–	3,497,720	–	–	–	722,421	4,220,141
Disposals	–	–	–	(350,000)	–	–	(350,000)
Ending balances	25,019,723	213,497,601	114,267,918	46,006,931	839,842	36,870,392	436,502,407
<b>Accumulated Depreciation</b>							
Beginning balances	12,296,550	192,984,108	81,911,358	38,486,097	839,842	27,992,541	354,510,496
Depreciation and amortization (see Notes 15 and 16)	1,096,965	6,806,202	3,775,667	2,504,620	–	1,457,615	15,641,069
Disposals	–	–	–	(235,833)	–	–	(235,833)
Ending balances	13,393,515	199,790,310	85,687,025	40,754,884	839,842	29,450,156	369,915,732
<b>Net Book Values</b>	<b>₱11,626,208</b>	<b>₱13,707,291</b>	<b>₱28,580,893</b>	<b>₱5,252,047</b>	<b>₱–</b>	<b>₱7,420,236</b>	<b>₱66,586,675</b>

	2016						
	Land Improvements	Mill Machinery and Equipment	Building and Building Equipment	Transportation Equipment	Leasehold Improvements	Other Equipment	Total
<b>Cost</b>							
Beginning balances	₱25,019,723	₱206,692,687	₱114,267,918	₱46,356,931	₱839,842	₱35,571,917	₱428,749,018
Additions	–	3,307,194	–	–	–	576,054	3,883,248
Ending balances	25,019,723	209,999,881	114,267,918	46,356,931	839,842	36,147,971	432,632,266
<b>Accumulated Depreciation</b>							
Beginning balances	11,171,620	186,577,248	78,024,106	34,794,482	839,842	26,515,128	337,922,426
Depreciation and amortization (see Notes 15 and 16)	1,124,930	6,406,860	3,887,252	3,691,615	–	1,477,413	16,588,070
Ending balances	12,296,550	192,984,108	81,911,358	38,486,097	839,842	27,992,541	354,510,496
<b>Net Book Values</b>	<b>₱12,723,173</b>	<b>₱17,015,773</b>	<b>₱32,356,560</b>	<b>₱7,870,834</b>	<b>₱–</b>	<b>₱8,155,430</b>	<b>₱78,121,770</b>

The aggregate cost of fully depreciated property, plant and equipment that are still being used in operations amounted to ₱52.79 million and ₱42.91 million as of December 31, 2017 and 2016, respectively.

Included under “Other noncurrent assets” are computer software with net book value of ₱0.17 million and ₱0.40 million as of December 31, 2017 and 2016, respectively. Amortization of computer software recognized in 2017, 2016 and 2015 amounted to ₱0.24 million (see Note 16).

## 12. Notes Payable

On various dates in 2017, the Group obtained short-term notes totaling ₱302,900,000 (with interest rate ranging from 3.00% to 4.13%), of which notes totaling ₱23,353,470 were paid during the same year. On various dates in 2016, the Group obtained short-term notes totaling ₱616,283,000 (with interest ranging from 2.92% to 3.50%), of which notes totaling ₱225,370,000 were fully paid in the same year.

All loans are secured by a real estate mortgage on certain parcels of land and building owned by the Group (see Note 10).

Total interest expense on notes amounted to ₱11.40 million in 2017, ₱7.67 million in 2016 and ₱5.78 million in 2015.



### 13. Accounts Payable and Other Current Liabilities

	2017	2016
Accounts payables	<b>₱21,580,913</b>	₱26,269,475
Liabilities under trust receipts (see Note 7)	<b>59,178,815</b>	–
Dividends payable	<b>28,720,661</b>	9,884,260
Retention payable	<b>12,343,684</b>	9,464,996
Customers and tenants' deposits	<b>11,910,165</b>	11,695,183
Output VAT - net	<b>6,509,975</b>	6,037,512
Accrued selling, freight and outside services	<b>3,467,359</b>	4,380,342
Withholding tax, HDMF and SSS payable	<b>2,943,058</b>	2,289,304
Construction bond	<b>1,448,216</b>	1,268,216
Retirement payable	–	8,316,743
Accrued liabilities - inventory in-transit	–	35,427,383
Accrued other expenses	<b>7,587,599</b>	3,824,201
	<b>₱155,690,445</b>	₱118,857,615

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

Liabilities under trust receipts are short-term loan with the banks, with terms of 90 days at 3% per annum, for importation of wheat grains.

Dividends payable consist of dividends declared and not paid as at December 31, 2017 and 2016.

Retention payable are non-interest bearing and fully recoverable upon completion of the contractor's construction services.

Customer and tenants deposits represents advances and deposits that are applied against subsequent deliveries and rentals and are generally outstanding within 30 days from receipt of payment. The deposit shall not be applied to the monthly rentals but shall be refunded within 15 days after the tenant vacates the leased premises, less deductions, if any.

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.

Total intercompany payables eliminated upon consolidation amounts to ₱0.08 million in 2017 and ₱2.60 million in 2016.

### 14. Equity

#### Capital Stock

The Parent 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	<b>200,000,000</b>	<b>₱2.00 billion</b>	200,000,000	₱2.00 billion
Issued and outstanding	<b>150,000,000</b>	<b>₱1.50 billion</b>	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 Parent 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
			<u>₱4,000,000</u>

In 1962, the Parent Company issued 20% common stock dividend. Consequently, the Parent 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 Parent Company paid out 20% stock dividends and in November 1966, the Parent 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:

	No. of shares	Amount
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 Parent Company's capitalization was approved by the SEC in November 1968.

In 1970, the Parent 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 Parent 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 Parent 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 Parent 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 Parent 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 PSE, issued to the Parent 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.

#### 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
May 27, 2015	June 10, 2015	June 23, 2015	₱1.00	₱87.50 million
September 30, 2015	October 15, 2015	November 6, 2015	₱1.00	87.50 million
February 24, 2016	March 11, 2016	March 21, 2016	₱1.50	225.0 million
March 22, 2017	April 07, 2017	April 21, 2017	₱0.75	112.5 million

#### Retained Earnings

On October 15, 2015, the BOD approved the reversal of appropriation amounting to ₱1.82 billion to be used to support its issuance for stock dividends.

As of December 31, 2017 and 2016, the Group's consolidated retained earnings include deficit of LEC amounting to ₱5.52 million and ₱4.59 million, respectively.



The balances of retained earnings includes the accumulated net earnings of LPC amounting to ₱7.99 million as of December 31, 2017 and deficit balance amounting to ₱12.56 million as of December 31, 2016. This amount is also not available for dividend distribution.

Events after Balance Sheet Date

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.

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**15. Cost of Sales**

	2017	2016	2015
Materials used	₱457,162,790	₱542,175,063	₱788,285,627
Direct labor (see Note 17)	52,099,199	55,309,149	52,121,998
Overhead:			
Utilities	29,410,360	34,914,421	32,851,775
Depreciation (see Note 11)	8,665,901	7,875,933	7,639,353
Repairs and maintenance	3,614,695	6,255,180	5,318,129
Other factory overhead	6,403,539	6,123,171	6,981,471
	<b>₱557,356,484</b>	<b>₱652,652,917</b>	<b>₱893,198,353</b>

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**16. Expenses**

Administrative Expenses

	2017	2016	2015
Employee benefits and bonuses (see Notes 17, 19 and 23)	₱46,707,429	₱56,762,776	₱71,383,949
Salaries and wages (see Notes 17 and 23)	30,711,457	28,401,260	28,851,766
Taxes and licenses	11,578,529	6,889,706	8,664,178
Outside services	9,660,545	9,782,107	8,001,672
Security Fees	7,299,597	7,375,572	6,401,193
Membership and subscription	6,930,619	11,311,812	2,564,198
Depreciation and amortization (see Note 11)	5,492,494	7,109,089	5,549,278
Port leasing fees	3,085,415	2,890,190	2,778,260
Travel and transportation	2,357,929	2,735,909	4,750,622
Donations and contribution	1,807,466	1,683,003	1,128,831
Insurance	1,678,522	1,573,549	1,553,039
Communication, light and water	1,476,932	1,377,445	1,328,986
Office supplies	1,186,447	1,059,805	1,609,861
Per diem	765,000	601,436	791,129
Representation	329,363	417,193	268,370
Repairs and maintenance	286,185	352,294	426,967
Others	4,052,062	2,327,574	7,167,282
	<b>₱135,405,991</b>	<b>₱142,650,720</b>	<b>₱153,219,581</b>



Selling Expenses

	2017	2016	2015
Promotional and marketing expenses (see Note 23)	<b>₱33,022,900</b>	₱36,039,400	₱36,405,943
Depreciation and amortization (see Note 11)	<b>1,719,012</b>	1,839,389	1,914,508
Freight and handling fees	<b>1,156,755</b>	2,035,013	2,047,056
Others	-	198,214	-
	<b>₱35,898,667</b>	₱40,112,016	₱40,367,507

**17. Personnel Costs**

	2017	2016	2015
Direct labor (see Note 15)	<b>₱52,099,199</b>	₱55,309,149	₱52,121,998
Salaries and wages (see Notes 16 and 23)	<b>30,711,457</b>	28,401,260	28,851,766
Bonus and allowances (see Note 16)	<b>29,656,621</b>	36,933,595	56,598,159
Retirement benefits costs (see Notes 16 and 19)	<b>13,499,265</b>	15,889,558	14,112,320
Other employee benefits (see Notes 16 and 23)	<b>3,551,543</b>	3,939,623	673,470
	<b>₱129,518,085</b>	₱140,473,185	₱152,357,713

**18. Other Income (Charges) - Net**

	2017	2016	2015
Fair value gain (loss) on financial assets at FVPL (see Note 6)	<b>(₱5,351,084)</b>	₱1,858,139	(₱10,325,326)
Gain on sale of available-for-sale investments (see Note 9)	<b>1,514,450</b>	4,186,517	-
Impairment loss on AFS investments (see Note 9)	-	(29,600,000)	(18,428,445)
Loss on retirement of investment properties	-	(10,197,731)	-
Utilities charges	<b>1,208,718</b>	1,035,124	1,212,545
Other income (charges) - net	<b>(3,656,165)</b>	1,289,717	1,203,773
	<b>(₱6,284,081)</b>	(₱31,428,234)	(₱26,337,453)

Utilities charges include water and electricity consumption charged to tenants.

Others include provision for losses and other income and expenses.



## 19. Retirement Benefits Costs

The Parent Company has a non-contributory defined benefit retirement plan covering its regular employees. Under the terms of the Collective Bargaining Agreement, the Parent Company is required to pay its regular employees retirement benefits of 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 has completed 20 years of credited service to the Parent Company.

LPC also has a non-contributory defined benefit retirement plan which provides a retirement benefit equal to 22.5 days for every year of credited service.

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 liability as at December 31, 2017 and 2016 follow:

	Balance at Beginning of Year	Net Retirement Cost in Statements of Comprehensive Income			Benefits Directly Paid by the Group	Remeasurements in Other Comprehensive Income				Balance at End of Year
		Current Service Cost	Net Interest	Subtotal		Actuarial Loss Excluding Amount included in Net Interest	Actuarial Changes Arising from Changes in Financial Assumptions	Actuarial Changes Arising from Experience	Subtotal	
<b>December 31, 2017</b>										
Present value of defined benefit obligation	₱144,208,687	₱7,575,274	₱7,582,221	₱15,157,495	(₱17,631,472)	₱-	(₱3,788,126)	(₱10,636,256)	(₱14,424,382)	₱127,310,328
Fair value of plan assets	33,345,898	-	1,658,230	1,658,230	-	(7,462,682)	-	-	(7,462,682)	27,541,446
Net defined benefit liability (asset)	₱110,862,789	₱7,575,274	₱5,923,991	₱13,499,265	(₱17,631,472)	₱7,462,682	(₱3,788,126)	(₱10,636,256)	(₱6,961,700)	₱99,768,882
<b>December 31, 2016</b>										
Present value of defined benefit obligation	₱166,958,761	₱9,224,810	₱7,659,726	₱16,884,536	(₱24,526,294)	₱-	(₱1,525,580)	(₱13,582,736)	(₱15,108,316)	₱144,208,687
Fair value of plan assets	21,338,424	-	994,978	994,978	-	11,012,496	-	-	11,012,496	33,345,898
Net defined benefit liability (asset)	₱145,620,337	₱9,224,810	₱6,664,748	₱15,889,558	(₱24,526,294)	(₱11,012,496)	(₱1,525,580)	(₱13,582,736)	(₱26,120,812)	₱110,862,789



The breakdown of net retirement plan liability per entity follows:

	2017	2016
Parent Company	<b>₱95,573,486</b>	₱107,019,257
LPC	<b>4,195,396</b>	3,843,532
	<b>₱99,768,882</b>	₱110,862,789

The Parent 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	<b>₱6,452,401</b>	₱5,048,349
Receivables	<b>711,554</b>	678,028
Investments in equity securities:		
Industrial	<b>19,647,246</b>	25,405,213
Services	<b>1,704,000</b>	2,246,375
Mining and oil	<b>1,782,113</b>	1,755,000
Others	<b>4,471,222</b>	5,440,023
Liabilities (see Note 23)	<b>(7,227,090)</b>	(7,227,090)
	<b>₱27,541,446</b>	₱33,345,898

Investments in equity securities can be transacted through the PSE. The plan assets include shares of stock of the Parent 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 Parent Company amounted to ₱3.79 million loss in 2017 and ₱11.64 million gain 2016. With respect to the plan's investment in the Parent Company's shares of stock:

- a. There are no restrictions or limitations on the shares provided in the plan,
- b. The Board of Trustees of the plan exercises voting rights over the shares, and
- c. There was no material gain or loss over the shares for the years ended December 31, 2017, 2016 and 2015.

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

The latest actuarial valuation of the Group'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
Discount rate	<b>5.62%–5.87%</b>	4.97%–4.99%
Future salary increases	<b>5.00%</b>	5.00%–8.00%

The Retirement Plan Committee has no specific matching strategy 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 100 basis points (bps) movement in the discount and salary increase rates as of December 31, 2017 and 2016:

		Increase (decrease) in rate	2017		2016	
			Increase (decrease) in DBO	Increase (decrease) in DBO	Increase (decrease) in DBO	Increase (decrease) in DBO
Discount rate	+100 bps	0.5%	(P1,479,548)		(P2,225,301)	
	- 100 bps	(0.5%)	1,637,574		2,497,675	
Salary increase rate	+100 bps	1.0%	3,336,324		4,375,405	
	-100 bps	(1.0%)	(2,786,299)		(3,666,160)	

In 2017, the average duration of the defined benefit obligation at the end of the period is 17.0 years for the Parent Company and 4.9 years for LPC. In 2016, the average duration of the defined benefit obligation at the end of the period is 16.0 years for the Parent Company and 7.4 years for LPC.

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:

	2017	2016
One year and less	P26,029,852	P34,818,750
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

## 20. Provisions and Contingencies

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

In 2015, the Group 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 Group filed a Motion for Partial Reconsideration on the remaining hectares of the said land property with a carrying value of P1.03 million. As of December 31, 2017, the appeal is still under review of the DAR.

### b. Tax Assessments

As discussed in Note 3, the Group is currently involved in certain 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 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 Group's position in relation to these ongoing claims and assessments.



## 21. Income Taxes

### Current Income Tax

In 2017, the Parent Company availed of the itemized deduction in computing the taxable income. In 2016 and 2015, the Parent Company used optional standard deduction (OSD) in computing the taxable income.

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 consolidated statements of comprehensive income follows:

	2017	2016	2015
Income tax at statutory income tax rate	<b>₱37,211,165</b>	₱47,903,424	₱72,082,574
Additions to (reductions in) income tax resulting from:			
Dividend income exempt from tax	<b>(10,813,075)</b>	(7,166,208)	(5,887,138)
Interest income subjected to final tax	<b>(7,976,072)</b>	(8,224,185)	(8,652,367)
Nondeductible expenses	<b>2,355,581</b>	4,116,177	7,659,131
Fair value changes on financial assets at FVPL	<b>1,605,325</b>	(557,442)	3,097,598
Movement in unrecognized deferred income tax assets	<b>(1,033,470)</b>	(23,432,635)	545,048
Difference between OSD and itemized deductions	-	14,130,920	8,049,121
	<b>₱21,349,454</b>	₱26,770,051	₱76,893,967

### Deferred Tax

The Group's deferred tax assets (liabilities), presented in the consolidated statements of financial position follow:

	2017	2016
Net deferred tax assets:		
Net retirement plan liability	<b>₱29,930,665</b>	₱35,753,859
Allowance for doubtful accounts	<b>329,676</b>	329,676
Others	<b>(1,287,133)</b>	(1,011,075)
	<b>₱28,973,208</b>	₱35,072,460
Net deferred tax liability -		
Accrued rent	<b>₱2,594,009</b>	₱-

The details of the deductible temporary differences for which no deferred tax assets were recognized as management assessed that there will be no sufficient future taxable profits will be available to allow all or part of the deferred tax assets to be utilized follow:

	2017	2016
Provision for:		
Impairment losses	<b>₱40,600,000</b>	₱40,600,000
Probable losses	<b>5,594,337</b>	2,500,000
Past service cost	<b>15,180,103</b>	19,446,697
	<b>₱61,374,440</b>	₱62,546,697



The Group 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.

Tax Reform for Acceleration and Inclusion (TRAIN) Law

Republic Act (RA) No.10963 or the TRAIN Act was signed into law on December 19, 2017 and took effect January 1, 2018, making the new tax law enacted as of the balance sheet 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 does not have any significant impact on the consolidated financial statement balances as of the balance sheet date.

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**22. Basic/Diluted Earnings Per Share**

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

	2017	2016	2015
Consolidated net income	<b>₱102,687,764</b>	₱130,217,971	₱163,381,278
Divided by weighted average number of shares (see Note 14)	<b>150,000,000</b>	150,000,000	149,999,732
Basic/diluted earnings per share	<b>₱0.68</b>	₱0.87	₱1.09

The weighted average number of shares in 2015 was adjusted to include the 75% stock dividend equivalent to 37.50 million shares declared on July 30, 2014 and issued on February 23, 2015, and the 71.42% stock dividend equivalent to 62.50 million shares declared on November 16, 2015 and issued on December 21, 2015.

The Group does not have potentially dilutive common shares as of December 31, 2017, 2016 and 2015. Therefore, the basic and diluted earnings per share are the same.

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**23. 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.

- a. The transactions with its related parties for each of the years and their account balances as of December 31 follow:

	Amount/Volume Income (Expense)			Outstanding Receivable Balance		Terms	Conditions
	2017	2016		2015	2017		
<i>Stockholder</i>							
<b>Parity Values, Inc.</b>							
Sales	<b>₱457,689,094</b>	₱580,241,068	₱856,460,562	<b>₱431,213,267</b>	₱454,136,772	120 days	Unsecured, not impaired
Rent income	<b>2,073,185</b>	1,690,413	1,528,405	<b>21,692</b>	21,568	30 days	Unsecured, not impaired
Promotional and marketing expenses	<b>(30,600,000)</b>	(30,600,000)	(30,600,000)	-	-	On demand	-
Rent expense	<b>1,607,143</b>	1,607,143	-	-	-	30 days	Unsecured, not impaired

(Forward)





	Amount/Volume Income (Expense)			Outstanding Receivable Balance		Terms	Conditions
	2017	2016	2015	2017	2016		
<b>Under Common Control</b>							
<b>Liberty Commodities Corporation</b>							
Sales	<b>₱142,641,002</b>	₱178,499,909	₱214,146,693	<b>₱97,911,411</b>	₱71,611,225	120 days	Unsecured, not impaired
Rent income	<b>2,669,836</b>	2,282,320	2,180,117	<b>100,396</b>	452,265	30 days	Unsecured, not impaired
Promotional and marketing expenses	<b>(5,400,000)</b>	(5,400,000)	(5,400,000)	–	–	On demand	–
<b>Trade Demands Corporation</b>							
Sales	<b>137,152,257</b>	160,186,529	182,373,828	<b>175,014,247</b>	194,519,319	120 days	Unsecured; not impaired
<b>Other related parties</b>							
<b>Officers and employees</b>							
Advances	<b>1,057,599</b>	6,343,839	21,846,271	<b>948,906</b>	2,998,984	On demand	Unsecured; not impaired
<b>Retirement Plan</b>							
Others	–			<b>7,227,090</b>	7,227,090		
Trade receivables from related parties (see Note 5)				<b>₱704,138,925</b>	₱720,267,316		
Rent receivables from related parties (see Note 5)				<b>₱122,088</b>	₱473,833		
Advances to officers and employees (see Note 5)				<b>₱948,906</b>	₱2,998,984		
Others (see Note 5)				<b>₱7,227,090</b>	₱7,227,090		

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

Outstanding balances of the 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.

- b. The Parent 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 consolidated statements of financial position. The members of the Retirement Plan Committee are directors or officers of the Parent Company.
- c. The key management personnel compensation is as follows:

	2017	2016	2015
Short-term employee benefits	<b>₱19,713,404</b>	₱14,435,061	₱20,032,031
Post-employment benefits and others	<b>35,825,407</b>	23,967,778	12,590,716
	<b>₱55,538,811</b>	₱38,402,839	₱32,622,747

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

## 24. Operating Leases

The Group leases out office spaces on its investment properties under various operating leases. The leases are for a term of one to ten years, and may be renewed upon mutual agreement of the parties.

Under the lease contracts, the lessees are required to pay security deposits and advance rental. These are shown under "Deposits on long-term leases" account in the consolidated statements of financial position, and are recorded at their accreted values which amounted to ₱15.26 million and ₱12.41 million as of December 31, and 2016, respectively. Accretion of interest, included in interest expense in profit or loss, amounted to ₱0.03 million in 2017, ₱0.50 million in 2016 and ₱0.08 million in 2015.



The difference between the present value and the nominal amount of deposits on long-term leases, shown under “Unearned rental income” account in the consolidated statements of financial position, amounted to ₱4.25 million and ₱3.69 million as of December 31, 2017 and 2016, respectively.

The “Accrued rent” account in the consolidated statements of financial position, which represents the excess of rental income recognized using the straight-line method over the rental income based on the terms of the lease agreements, amounted to ₱4.72 million and ₱2.67 million as of December 31, 2017 and 2016, respectively.

The future minimum lease receivables under non-cancellable leases on its investment properties are as follows:

	2017	2016
Within one year	<b>₱88,343,803</b>	₱57,572,972
After one year but not more than five years	<b>168,663,495</b>	100,663,050
More than five years	–	764,606
	<b>₱257,007,298</b>	₱159,000,628

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

The Group’s principal financial instruments consist of cash and cash equivalents, financial assets at FVPL, AFS investments and notes payable. The main purpose of these financial instruments is to fund the Group’s operations. The other financial assets and financial liabilities arising directly from its operations are trade receivables, liabilities under trust receipts, accounts payable and accrued expenses.

The main risks arising from the Group’s financial instruments are credit risk, equity price risk, and liquidity risk. The Group’s exposure to foreign currency risk is minimal as this only relates to the Group’s foreign currency-denominated cash in banks. The Group’s exposure to interest rate risk is minimal as the interest of notes payable are stated at fixed rate. The BOD reviews and approves policies for managing each of these risks.

### Credit Risk

Credit risk represents the loss that the Group would incur if the counterparty failed to perform under its contractual obligations. The Group has established controls and procedures in its credit policy to determine and monitor the credit worthiness of customers and counterparties. The Group 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 Group is also potentially subject to concentrations of credit risk in its accounts receivable. Approximately all of the Group’s entire trade receivables and revenues are concentrated with its three distributors as of December 31, 2017 and 2016. The Group 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 Group 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 Group, which comprise cash and cash equivalents, financial assets at FVPL and AFS investments, the Group’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 Group, 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	₱131,985,809	₱158,850,917
Trade and other receivables - net	763,094,723	790,358,136
Financial assets at FVPL	167,359,493	51,148,926
AFS investments	1,270,220,532	1,242,445,589
	<b>₱2,332,660,557</b>	<b>₱2,242,803,568</b>

The following table summarizes the credit quality of the Group's financial assets per category as of December 31, 2017 and 2016:

	December 31, 2017						Total
	Neither past due nor impaired			Past due but not impaired	Past due and impaired		
	High Grade	Standard Grade	Substandard Grade				
Loans and receivables:							
Cash in banks and cash equivalents:							
Cash in banks	₱90,729,977	₱-	₱-	₱-	₱-	₱90,729,977	
Cash equivalents	44,669,211	-	-	-	-	44,669,211	
Receivables:							
Trade receivables from related parties	324,845,724	-	-	379,293,201	-	704,138,925	
Rent receivables:							
Third parties	3,376,716	-	-	1,060,909	-	4,437,625	
Related parties	122,088	-	-	-	-	122,088	
Advances to officers and employees	948,906	-	-	-	-	948,906	
Advances to a broker	30,630,995	-	-	-	-	30,630,995	
Other receivables	12,500,000	-	-	10,316,184	1,098,921	23,915,105	
Financial assets at FVPL	167,359,493	-	-	-	-	167,359,493	
AFS investments:							
Equity securities	687,045,754	11,815,708	-	-	-	698,861,462	
Debt securities	571,359,070	-	-	-	-	571,359,070	
<b>Total</b>	<b>₱1,933,587,934</b>	<b>₱11,815,708</b>	<b>₱-</b>	<b>₱390,670,294</b>	<b>₱1,098,921</b>	<b>₱2,337,172,857</b>	

	December 31, 2016						Total
	Neither past due nor impaired			Past due but not impaired	Past due and impaired		
	High Grade	Standard Grade	Substandard Grade				
Loans and receivables:							
Cash in banks and cash equivalents:							
Cash in banks	₱86,042,517	₱-	₱-	₱-	₱-	₱86,042,517	
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	4,161,473	905	-	475,613	-	4,637,991	
Related parties	358,790	-	-	115,043	-	473,833	
Advances to officers and employees	2,998,984	-	-	-	-	2,998,984	
Advances to a broker	27,027,533	-	-	-	-	27,027,533	
Other receivables	27,595,900	-	-	7,356,578	1,098,921	36,051,399	
Financial assets at FVPL	51,148,926	-	-	-	-	51,148,926	
AFS investments:							
Equity securities	679,435,841	11,815,708	-	-	-	691,251,549	
Debt securities	551,194,040	-	-	-	-	551,194,040	
<b>Total</b>	<b>₱1,828,486,293</b>	<b>₱11,816,613</b>	<b>₱-</b>	<b>₱402,447,231</b>	<b>₱1,098,921</b>	<b>₱2,243,849,058</b>	



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

*High Grade* - This includes cash and cash equivalents and financial assets at FVPL with 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 accounts with counterparties with no history of default on the agreed contract terms.

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

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

The aging analysis of “past due but not impaired” financial assets follow:

	2017					Total
	<30 days	31-60 days	61-90 days	91-120 days	Over 120 days	
Trade receivable from related parties	₱66,994,557	₱67,068,599	₱69,098,113	₱60,988,710	₱115,143,222	₱379,293,201
Rent receivable	216,142	23,535	22,303	–	798,929	1,060,909
Other receivables	–	–	–	–	10,316,184	10,316,184
	<b>₱67,210,699</b>	<b>₱67,092,134</b>	<b>₱69,120,416</b>	<b>₱60,988,710</b>	<b>₱126,258,335</b>	<b>₱390,670,294</b>

	2016					Total
	<30 days	31-60 days	61-90 days	91-120 days	Over 120 days	
Trade receivable from related parties	₱82,335,874	₱75,154,568	₱74,831,971	₱75,149,215	₱87,028,369	₱394,499,997
Rent receivable	490,369	56,703	–	–	43,584	590,656
Other receivables	5,494	–	–	12,421	7,338,663	7,356,578
	<b>₱82,831,737</b>	<b>₱75,211,271</b>	<b>₱74,831,971</b>	<b>₱75,161,636</b>	<b>₱94,410,616</b>	<b>₱402,447,231</b>

### 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 Group is exposed to equity price risk because of investments in quoted equity securities, which are classified in the consolidated statements of financial position as financial assets at FVPL and AFS investments.

The Group’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 Group has determined that 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. An increase on the PSEi index would only impact equity, but would not have an effect on 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 in fair value of AFS equity securities as of December 31, 2017 and 2016 follows:

	2017	
	Increase (decrease) in rate	Increase (decrease) in profit or loss/equity
Financial assets at FVPL	7% (7%)	₱11,715,164 (11,715,164)
AFS Investments	5% (5%)	8,367,975 (8,367,975)
	2016	
	Increase (decrease) in rate	Increase (decrease) in profit or loss/equity
Financial assets at FVPL	5% (5%)	₱1,172,398 (384,754)
AFS Investments	5% (5%)	31,774,613 (14,023,917)

#### Liquidity Risk

Liquidity risk is the risk that the Group will be unable to pay its obligations when they fall due under normal and stress circumstances. The Group 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 Group'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 financial assets that can be used by the Group to manage its liquidity risks and the maturity profile of the Group's other financial liabilities as of December 31, 2017 and 2016:

	December 31, 2017				Total
	On Demand	Less than 3 Months	3 to 12 Months	More than 12 Months	
<b>Financial Assets</b>					
Loans and receivables:					
Cash and cash equivalents:					
Cash in banks	₱90,729,977	₱-	₱-	₱-	₱90,729,977
Cash equivalents	39,083,375	-	-	-	39,083,375
Trade receivables from related parties	324,845,724	-	379,293,201	-	704,138,925
Rent receivables:					
Third parties	3,376,716	-	1,060,909	-	4,437,625
Related parties	122,088	-	-	-	122,088
Advances to officers and employees	948,906	-	-	-	948,906
Advances to a broker	30,630,995	-	-	-	30,630,995
Other receivables	12,500,000	-	10,316,184	1,098,921	23,915,105
Financial assets at FVPL	167,359,493	-	-	-	167,359,493
AFS investments:					
Equity securities	-	-	-	698,861,462	698,861,462
Debt securities	-	-	-	571,359,070	571,359,070
<b>Total financial assets (Carried Forward)</b>	<b>669,597,274</b>	<b>-</b>	<b>390,670,294</b>	<b>1,271,319,453</b>	<b>2,331,587,021</b>



	December 31, 2017				
	On Demand	Less than 3 Months	3 to 12 Months	More than 12 Months	Total
<b>Total financial assets (Brought Forward)</b>	<b>₱669,597,274</b>	<b>₱-</b>	<b>₱390,670,294</b>	<b>₱1,271,319,453</b>	<b>₱2,331,587,021</b>
<b>Financial Liabilities</b>					
Notes payable, including interest	-	393,696,302	-	-	393,696,302
Trade payables and accrued expenses:					
Trade payables	21,580,914	-	-	-	21,580,914
Dividends payable	28,720,661	-	-	-	28,720,661
Customers and tenants deposits	-	-	11,910,165	-	11,910,165
Accrued liabilities on trust receipts, utilities, freight and other expenses	71,681,990	-	-	-	71,681,990
Deposits on long-term leases	-	-	6,994,302	6,046,569	13,040,871
<b>Total financial liabilities</b>	<b>121,983,565</b>	<b>393,696,302</b>	<b>18,904,467</b>	<b>6,046,569</b>	<b>540,630,903</b>
<b>Net financial asset (liabilities)</b>	<b>₱547,613,709</b>	<b>(₱393,696,302)</b>	<b>₱371,765,827</b>	<b>₱1,265,272,884</b>	<b>₱1,790,956,118</b>

	December 31, 2016				
	On Demand	Less than 3 Months	3 to 12 Months	More than 12 Months	Total
<b>Financial Assets</b>					
Loans and receivables:					
Cash and cash equivalents:					
Cash in banks	₱86,042,517	₱-	₱-	₱-	₱86,042,517
Cash equivalents	72,754,970	-	-	-	72,754,970
Trade receivables from related parties	481,036,766	-	239,230,550	-	720,267,316
Rent receivables:					
Third parties	4,160,510	905	476,576	-	4,637,991
Related parties	473,833	-	-	-	473,833
Advances to officers and employees	2,998,984	-	-	-	2,998,984
Advances to a broker	27,027,533	-	-	-	27,027,533
Other receivables	13,856,193	6,901,649	-	1,600,000	22,357,842
Financial assets at FVPL	51,148,926	-	-	-	51,148,926
AFS investments:					
Equity securities	-	-	-	691,251,549	691,251,549
Debt instruments	-	-	-	551,194,040	551,194,040
<b>Total financial assets</b>	<b>739,500,232</b>	<b>6,902,554</b>	<b>239,707,126</b>	<b>1,244,045,589</b>	<b>2,230,155,501</b>
<b>Financial Liabilities</b>					
Long-term loan, including interest	-	391,696,302	-	-	391,696,302
Notes payable, including interest					
Trade payables and accrued expenses:					
Trade payables	26,269,475	-	-	-	26,269,475
Dividends payable	9,884,260	-	-	-	9,884,260
Customers and tenants deposits	-	-	11,695,183	-	11,695,183
Accrued utilities, freight and other expenses	44,900,141	-	-	-	44,900,141
Deposits on long-term leases	-	-	6,951,877	5,462,809	12,414,686
<b>Total financial liabilities</b>	<b>81,053,876</b>	<b>391,696,302</b>	<b>18,647,060</b>	<b>5,462,809</b>	<b>496,860,047</b>
<b>Net financial assets (liabilities)</b>	<b>₱658,446,356</b>	<b>(₱384,793,748)</b>	<b>₱221,060,066</b>	<b>₱1,238,582,780</b>	<b>₱1,733,295,454</b>

### Fair Value

The carrying values of cash and cash equivalents, receivables, notes payable, accounts payable and other current liabilities approximate their fair values due to their short-term nature. The carrying value of unquoted equity securities approximate their fair values based on the adjusted net asset method. The carrying values deposits on long-term leases were not materially different from their calculated fair values estimated by discounting future cash flows using rates currently available for debt on similar terms and remaining maturities.

The following are the Group's financial instruments whose carrying amounts are measured at fair value:

	Carrying Value		Fair Value	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
<b>Financial Assets</b>				
Financial assets at FVPL	<b>₱167,359,493</b>	₱51,148,926	<b>₱167,359,493</b>	₱51,148,926
AFS investments - quoted	<b>1,270,220,532</b>	1,242,445,589	<b>1,270,220,532</b>	1,242,445,589



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

Fair Value Hierarchy

Below table presents the fair value measurement hierarchy of the Group's financial assets carried at fair value and financial asset and liability whose fair values are disclosed as of December 31:

	December 31, 2017			
	Total	Level 1	Level 2	Level 3
<b>Financial assets measured at fair value</b>				
Financial assets at FVPL	P167,359,493	P167,359,493	P-	P-
AFS investments:				
Quoted debt securities	571,359,070	571,359,070	-	-
Quoted equity securities	687,045,754	687,045,754	-	-
Unquoted equity securities	-	-	-	11,815,708
<b>Nonfinancial assets for which fair values are disclosed</b>				
Investment properties	3,539,221,813	-	-	3,539,221,813
	December 31, 2016			
	Total	Level 1	Level 2	Level 3
<b>Financial assets measured at fair value</b>				
Financial assets at FVPL	P51,148,926	P51,148,926	P-	P-
AFS investments:				
Quoted debt securities	551,194,040	551,194,040	-	-
Quoted equity securities	679,435,841	679,435,841	-	-
<b>Nonfinancial assets for which fair values are disclosed</b>				
Investment properties	3,539,221,813	-	-	3,539,221,813
<b>Financial liability for which fair value is disclosed</b>				
Long-term loan	-	-	-	-

The disclosures on the fair value measurement hierarchy for investment properties carried at cost are disclosed in Note 10.

In 2017 and 2016, there were no transfers between the fair value measurement hierarchy levels.

Changes in liabilities arising from financing activities

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

	January 1	Cash flows	Noncash charges	December 31
Notes payable	P390,913,000	P279,546,530	P-	P670,459,530
Interest payable	-	(12,593,839)	12,593,839	-
Dividends payable (see Note 13)	9,884,260	(93,663,599)	112,400,000	28,720,661
<b>Total liabilities</b>	<b>P400,797,260</b>	<b>P173,289,092</b>	<b>P124,993,839</b>	<b>P699,180,191</b>

Noncash charges pertain to declaration of dividends and accrual of interests on note payable.



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## 26. Capital Management Policies

The primary objective of the Group'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 Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group 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 Group 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 Group at this point, with its healthy cash flow, is not looking for any bank loans to finance its operations and renovations. The Group strives to earn a minimum return double the annual inflation rate.

The following table summarizes the total capital considered by the Group as of December 31:

	2017	2016
Capital stock	<b>₱1,500,000,000</b>	₱1,500,000,000
Retained earnings	<b>1,249,521,717</b>	1,259,333,953
	<b>₱2,749,521,717</b>	₱2,759,333,953

The Group is not subject to any externally imposed capital requirements.

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## 27. Segment Information

The Group'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 based in the Philippines.

The Executive Committee, the Group's chief operating decision maker, monitors operating results of its business segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on gross margin and net income and is measured consistently with gross margin and net income in the consolidated financial statements.

On a consolidated basis, the Group's performance is evaluated based on revenue, income before tax and net income for the year.





The following tables on business segments present the revenue and profit information for each of the three years in the period ended December 31, 2017 and the segment assets as of December 31, 2017, 2016 and 2015.

	December 31, 2017			
	Bakery Flour	Mill Feed	Real Estate and Investment	Consolidated
<b>Revenue</b>				
Sales – related parties	₱671,999,632	₱65,482,721	₱–	₱737,482,353
Rental income	–	–	110,618,692	110,618,692
Interest income	–	–	27,876,976	27,876,976
Dividend income	–	–	36,043,582	36,043,582
	671,999,632	65,482,721	174,539,250	912,021,603
<b>Cost of sales/services</b>	507,867,545	49,488,939	40,359,133	597,715,617
<b>Gross profit on sales/income</b>	164,132,087	15,993,782	134,180,117	314,305,986
Selling and administrative expenses	(156,172,668)	(15,218,180)	–	(171,390,848)
Interest expense	–	–	(12,593,839)	(12,593,839)
Other charges – net	(349,981)	(34,104)	(5,899,996)	(6,284,081)
Provision for income tax	–	–	–	(21,349,454)
<b>Net income</b>	₱7,609,438	₱741,498	₱115,686,282	₱102,687,764
<b>Property, plant and equipment</b>	₱62,694,283	₱2,067,786	₱1,824,606	₱66,586,675
<b>Depreciation and amortization</b>	₱15,386,353	₱491,054	14,567,945	₱30,445,352
<b>Additions to property, plant and equipment and investment properties</b>	₱4,089,621	₱130,520	₱262,262,085	₱266,482,226

	December 31, 2016			
	Bakery Flour	Mill Feed	Real Estate and Investment	Consolidated
<b>Revenue</b>				
Sales – related parties	₱822,527,092	₱96,400,414	₱–	₱918,927,506
Rental income	–	–	100,272,253	100,272,253
Interest income	–	–	29,537,071	29,537,071
Dividend income	–	–	23,887,361	23,887,361
	822,527,092	96,400,414	153,696,685	1,072,624,191
<b>Cost of sales/services</b>	584,186,133	68,466,784	39,218,376	691,871,293
<b>Gross profit on sales/income</b>	238,340,959	27,933,630	114,478,309	380,752,898
Selling and administrative expenses	(163,178,851)	(19,124,609)	–	(182,303,460)
Interest expense	–	–	(10,033,182)	(10,033,182)
Other charges - net	2,154,120	170,721	(33,753,075)	(31,428,234)
Provision for income tax	–	–	–	(26,770,051)
<b>Net income</b>	77,316,228	8,979,742	70,692,052	130,217,971
<b>Property, plant and equipment</b>	₱73,555,082	₱2,425,998	₱2,140,690	₱78,121,770
<b>Depreciation and amortization</b>	₱14,989,978	₱1,756,829	₱15,546,642	₱32,293,449
<b>Additions to property, plant and equipment and investment properties</b>	₱3,763,148	₱120,100	₱84,519,709	₱88,402,957

	December 31, 2015			
	Bakery Flour	Mill Feed	Real Estate and Investment	Consolidated
<b>Revenue</b>				
Sales – related parties	₱1,125,336,315	₱127,646,242	₱–	₱1,252,982,557
Rental income	–	–	101,942,963	101,942,963
Interest income	–	–	29,368,153	29,368,153
Dividend income	–	–	19,623,793	19,623,793
	1,125,336,315	127,646,242	150,934,909	1,403,917,466
<b>Cost of sales/services</b>	802,204,737	90,993,616	39,187,353	932,385,706
<b>Gross profit on sales/ income</b>	323,131,578	36,652,626	111,747,556	471,531,760
Selling and administrative expenses	(174,228,379)	(19,358,709)	–	(193,587,088)
Interest expense	–	–	(11,331,974)	(11,331,974)
Other charges - net	2,096,744	315,574	(28,749,771)	(26,337,453)
Provision for income tax	–	–	–	(76,893,967)
<b>Net income</b>	₱150,999,943	₱17,609,491	₱71,665,811	₱163,381,278
<b>Property, plant and equipment</b>	₱85,517,231	₱2,820,534	₱2,488,827	₱90,826,592
<b>Depreciation and amortization</b>	₱13,124,948	₱1,438,704	₱16,577,069	₱31,140,721
<b>Additions to property, plant and equipment and investment properties</b>	₱6,012,260	₱191,881	₱11,418,542	₱17,622,683

