



STAMPS

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SECURITIES AND EXCHANGE COMMISSION  
SEC FORM 17-Q

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

- 1. For the quarterly period ended **March 31, 2014**
- 2. SEC Identification Number **9170**
- 3. BIR Tax Identification No. **000-400-016-000**
- 4. Exact name of issuer as specified in its charter **Universal Robina Corporation**
- 5. **Quezon City, Philippines**  
Province, Country or other jurisdiction of incorporation or organization
- 6. Industry Classification Code:  (SEC Use Only)
- 7. **110 E. Rodriguez Ave., Bagumbayan, Quezon City** **1110**  
Address of principal office Postal Code
- 8. **671-2935; 635-0751; 671-3954**  
Issuer's telephone number, including area code
- 9. **Not Applicable**  
Former name, former address, and former fiscal year, if changed since last report.
- 10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt
<b>Common Shares, P1.00</b>	
<b>Par value</b>	<b>2,181,501,933 shares</b>

- 11. Are any or all of these securities listed on the Philippine Stock Exchange?  
Yes [ / ]                      No [ ]

12. Check whether the issuer:

- a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports);

Yes [ / ]                      No [   ]

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

Yes [ / ]                      No [   ]

## PART I - FINANCIAL INFORMATION

### Item 1. Financial Statements

The unaudited consolidated financial statements are filed as part of this Form 17-Q (pages 13 to 62)

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

#### *Business Overview*

Universal Robina Corporation (URC) is one of the largest branded food product companies in the Philippines, with the distinction of being called the country's first "Philippine multinational", and has a growing presence in other Asian markets. It was founded in 1954 when Mr. John Gokongwei, Jr. established Universal Corn Products, Inc., a cornstarch manufacturing plant in Pasig. The Company is involved in a wide range of food-related businesses, including the manufacture and distribution of branded consumer foods, production of hogs and day-old chicks, manufacture of animal and fish feeds, glucose and veterinary compounds, flour milling, and sugar milling and refining. The Company is a dominant player with leading market shares in savory snacks, candies and chocolates, and is a significant player in biscuits, with leading positions in cookies and pretzels. URC is also the largest player in the RTD (ready-to-drink) tea market, and is a respectable 2nd player in the cup noodles and 2nd in coffee businesses.

The Company operates its food business through operating divisions and wholly-owned or majority-owned subsidiaries that are organized into three core business segments: branded consumer foods, agro-industrial products and commodity food products.

Branded consumer foods (BCF) segment, including our packaging division, is the Company's largest segment. This segment is engaged in the manufacture and distribution of diverse mix of salty snacks, chocolates, candies, biscuits, bakery products, beverages, instant noodles and pasta and tomato-based products. The manufacture, distribution, sales and marketing activities for the Company's consumer food products are carried out mainly through the Company's branded consumer foods division consisting of snack foods, beverage and grocery groups, although the Company conducts some of its branded consumer foods operations through its majority-owned subsidiaries and joint venture companies (i.e. Nissin-URC and Hunt-URC). URC also formed Food Service and Industrial division that supply BCF products in bulk to certain institutions like hotels, restaurants, and schools. Majority of the Company's consumer food business is conducted in the Philippines but has expanded more aggressively into other Asian markets, primarily through its wholly-owned subsidiary, URC International. The Company established URC Packaging division to engage in the manufacture of bi-axially oriented polypropylene (BOPP) films for packaging companies. The BOPP plant, located in Batangas, began commercial operation in June 1998 and holds the distinction of being the only Integrated Management System ISO-certified BOPP plant in the country today, with its Quality ISO 9001:2008 and Environmental ISO 14001:2004 Standards.

The Company's agro-industrial products segment operates three divisions, which engage in hog and poultry farming (Robina Farms or "RF"), the manufacture and distribution of animal feeds, glucose and soya products (Universal Corn Products or "UCP"), and the production and distribution of animal health products (Robichem).

The Company's commodity food products segment engages in sugar milling and refining through its Sugar divisions: URSUMCO, CARSUMCO, SONEDCO, PASSI and Tolong; and flour milling and pasta

manufacturing through URC Flour division. This segment supplies all the flour and sugar needs of the branded consumer foods segment.

The Company is a core subsidiary of JG Summit Holdings, Inc. (JGSHI), one of the largest conglomerates listed in the Philippine Stock Exchange based on total net sales. JGSHI has substantial business interests in property development, hotel management, banking and financial services, petrochemicals, air transportation, telecommunications and in other sectors, including power generation, printing, and insurance. On December 4, 2012, JGSHI was named by Forbes Asia as one of the 50 best publicly-traded companies in Asia for 2012, the only Philippine firm chosen from a pool of 1,295 companies.

The Company's revenues for the six months ended March 31, 2014 and 2013 by each of the principal business segments is as follows:

<i>In millions</i>	<b>Six months ended March 31</b>	
	<b>2014</b>	<b>2013</b>
Branded Consumer Foods Group		
Domestic	<b>₱25,622</b>	₱20,226
International	<b>11,766</b>	10,709
	<b>37,388</b>	30,935
Packaging	<b>452</b>	571
Total BCFG	<b>37,840</b>	31,506
Agro-Industrial Group	<b>4,094</b>	3,778
Commodity Foods Group	<b>3,809</b>	5,032
	<b>₱45,743</b>	₱40,316

### ***Results of Operations***

#### *Six Months ended March 31, 2014 versus March 31, 2013*

URC generated a consolidated sale of goods and services of ₱45.743 billion for the six months ended March 31, 2014, 13.5% sales growth over the same period last year. Sale of goods and services performance by business segment follows:

Sale of goods and services in URC's branded consumer foods segment (BCFG), excluding packaging division, increased by ₱6.453 billion, or 20.9%, to ₱37.388 billion for the first half of fiscal 2014 from ₱30.935 billion registered in the same period last year. BCFG domestic operations posted a 26.7% increase in net sales from ₱20.226 billion for the first half of fiscal 2013 to ₱25.622 billion for the first half of fiscal 2014 due to strong performance of its beverage division which grew 42.2% on the back of solid performance by powdered beverage businesses, mainly coming from coffee and complemented by RTD business. Sales for snack foods division grew by 18.0% due to growth across salty snacks, bakery and confectionery segments.

- BCFG international operations reported a 9.9% increase in net sales from ₱10.709 billion for the first half of fiscal 2013 to ₱11.766 billion for the first half of fiscal 2014. In US dollar (US\$) terms, sales slightly increased by 1.6% to US\$266 million for the first half of fiscal 2014 against the same period last year. Increase in sales came from Thailand and Vietnam. Thailand growth occurred despite the weak macro environment and the political turmoil in the country mainly due to new product launches. Vietnam showed signs of recovery from the weakness in beverage sales posted last quarter and weak consumer demand which affected total Fast Moving Consumer Goods (FMCG) sales in the country.

Sale of goods and services of BCFG, excluding packaging division, accounted for 81.7% of total

URC consolidated sale of goods and services for the first half of fiscal 2014.

Sale of goods and services in URC's packaging division decreased by 20.8% to ₱452 million for the first half of fiscal 2014 from ₱571 million recorded in the same period last year due to decline in sales volume.

- Sale of goods and services in URC's agro-industrial segment (AIG) amounted to ₱4.094 billion for the first half of fiscal 2014, an 8.4% increase from ₱3.778 billion recorded in the same period last year. Farm business increased by 11.7% due to increase in sales volume of hog carcass and higher prices of hogs while feed business slightly increased by 3.6%.
- Sale of goods and services in URC's commodity foods segment (CFG) amounted to ₱3.809 billion for the first half of fiscal 2014, a 24.3% decline from ₱5.032 billion reported in the same period last year. Sugar business decreased by 44.6% due to significant decline in volume as sugar cane production was affected by unusually wet season which affected the cane supply for the period. Flour business increased by 6.3% due to higher volume.

URC's cost of sales consists primarily of raw and packaging materials costs, manufacturing costs and direct labor costs. Cost of sales increased by ₱2.588 billion, or 8.9%, to ₱31.635 billion for the first half of fiscal 2014 from ₱29.047 billion recorded in the same period last year due to increase in sales volume.

URC's gross profit for the first half of fiscal 2014 amounted to ₱14.108 billion, up by ₱2.839 billion or 25.2% from ₱11.269 billion reported in the same period last year. Gross profit margin increased by 280 basis points from 28.0% to 30.8%.

URC's selling and distribution costs, and general and administrative expenses consist primarily of compensation benefits, advertising and promotion costs, freight and other selling expenses, depreciation, repairs and maintenance expenses and other administrative expenses. Selling and distribution costs, and general and administrative expenses rose by ₱759 million or 12.0% to ₱7.099 billion for the first half of fiscal 2014 from ₱6.340 billion registered for the first half of fiscal 2013. The increase resulted primarily from the following factors:

- 21.4% or ₱349 million increase in freight and delivery charges to ₱1.982 billion in the first half of fiscal 2014 from ₱1.633 billion in the same period last year due to increase in trucking and shipping costs associated with increased volume.
- 10.0% or ₱252 million increase in advertising and promotion costs to ₱2.776 billion in the first half of fiscal 2014 from ₱2.524 billion in the same period last year to support the new SKUs launched and boost up sales of existing products in light of increasing market competition.
- 7.2% or ₱94 million increase in compensation and benefits to ₱1.393 billion in the first half of fiscal 2014 from ₱1.299 billion in the same period last year due to annual salary adjustments and increase in accrual of pension expenses.

As a result of the above factors, operating income increased by ₱2.080 billion, or 42.2% to ₱7.009 billion for the first half of fiscal 2014 from ₱4.929 billion reported for the first half of 2013.

Market valuation gain (loss) on financial instruments at fair value through profit or loss decreased to ₱8 million market valuation loss for the first half of fiscal 2014 from ₱506 million market valuation gain in the same period last year due to decline in level of financial assets as a result of disposal of all bond investments and significant portion of equity investments.

URC's finance revenue consists of interest income from investments in financial instruments, money market placements, savings and dollar deposits and dividend income from investment in equity securities. Finance revenue decreased by 73.1% or ₱323 million to ₱119 million for the first half of fiscal 2014 from ₱442 million in the same period last year due to decline in level of financial assets as a result of disposal of bond and equity investments.

URC's finance costs consist mainly of interest expense which decreased by ₱156 million or 70.9%, to ₱64 million for the first half of fiscal 2014 from ₱220 million recorded in the same period last year due to decline in level of financial debt resulting from settlement of long-term debt and repayments of short-term debts.

Foreign exchange gain (loss) - net amounted to ₱266 million foreign exchange gain for the first half of fiscal 2014 from ₱429 million foreign exchange loss reported in the same period last year due to continuous depreciation of subsidiaries' local currencies and Philippine peso vis-à-vis US dollar.

Equity in net income of a joint venture amounted to ₱19 million for the first half of fiscal 2014 as against ₱13 million in the same period last year due to higher net income of Hunt-Universal Robina Corporation.

Other income - net consists of gain (loss) on sale of fixed assets and investments, amortization of bond issue costs, rental income, and miscellaneous income and expenses. Other income - net decreased to ₱53 million for the first half of fiscal 2014 from ₱814 million in the same period last year due to gain on sale of bond and equity investments last year.

The Company recognized provision for income tax of ₱1.173 billion for the first half of fiscal 2014, 91.4% increase from ₱613 million for the first half of fiscal 2013 due to higher taxable income of the Parent company and subsidiaries.

URC's net income for the first half of fiscal 2014 amounted to ₱6.223 billion, higher by ₱782 million or 14.4% from ₱5.441 billion for the first half of fiscal 2013, due to higher operating income, net of lower net finance revenue and market valuation gain from financial assets at FVPL.

URC's core earnings before tax (operating profit after equity earnings, net finance revenue and other income - net) for the first half of fiscal 2014 amounted to ₱7.137 billion, an increase of 19.4% from ₱5.977 billion recorded in the same period last year.

Net income attributable to equity holders of the parent increased by ₱758 million or 14.0% to ₱6.165 billion for the first half of fiscal 2014 from ₱5.407 billion for the first half of fiscal 2013 as a result of the factors discussed above.

Non-controlling interest (NCI) represents primarily the share in the net income attributable to non-controlling interest of Nissin-URC, URC's 65.0%-owned subsidiary. NCI in net income of subsidiaries increased from ₱34 million for the first half of fiscal 2013 to ₱58 million in the same period this year.

URC reported an EBITDA (operating income plus depreciation and amortization) of ₱8.868 billion for the first half of fiscal 2014, 34.0% higher than ₱6.618 billion posted for the first half of fiscal 2013.

### **Financial Condition**

#### *March 31, 2014 versus September 30, 2013*

URC's financial position remains healthy with strong cash levels. The Company has a current ratio of 1.85:1 as of March 31, 2014, lower than the 2.27:1 as of September 30, 2013. Financial debt to equity ratio of 0.13:1 as of March 31, 2014 is within comfortable level.

Total assets amounted to ₱68.967 billion as of March 31, 2014, higher than ₱66.545 billion as of September 30, 2013. Book value per share slightly decreased to ₱23.14 as of March 31, 2014 from ₱23.28 as of September 30, 2013.

The Company's cash requirements have been sourced through cash flow from operations. Net cash provided by operating activities for the first half of fiscal 2014 amounted to ₱10.066 billion. Net cash used in investing activities amounted to ₱4.711 billion which were substantially used for capital expenditures. Net cash used in financing activities amounted to ₱6.840 billion which were used to pay dividends and settle short-term borrowings.

As of March 31, 2014, the Company is not aware of any material off-balance sheet transactions, arrangements and obligations (including contingent obligations), and other relationship of the Company with unconsolidated entities or other persons created during the reporting period that would have a significant impact on the Company's operations and/or financial condition.

### **Financial Ratios**

The following are the major financial ratios that the Group uses. Analyses are employed by comparisons and measurements based on the financial information of the current period against last year.

	<b>March 31, 2014</b>	September 30, 2013
<hr/>		
Liquidity:		
Current ratio	<b>1.85:1</b>	2.27:1
Solvency:		
Gearing ratio	<b>0.13:1</b>	0.09:1
Debt to equity ratio	<b>0.37:1</b>	0.31:1
Asset to equity ratio	<b>1.37:1</b>	1.31:1
<hr/>		
	<b>Six months ended March 31 2014</b>	2013
<hr/>		
Profitability:		
Operating margin	<b>15.32%</b>	12.22%
Earnings per share	<b>₱2.83</b>	₱2.48
Leverage:		
Interest rate coverage ratio	<b>139.00:1</b>	30.02:1

The Group calculates the ratios as follows:

<b>Financial Ratios</b>	<b>Formula</b>
Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$

Gearing ratio	$\frac{\text{Total financial debt (short-term debt, trust receipts and acceptances payable and long-term debt including current portion)}}{\text{Total equity (equity holders + non-controlling interests)}}$
Debt to equity ratio	$\frac{\text{Total liabilities (current + noncurrent)}}{\text{Total equity (equity holders + non-controlling interests)}}$
Asset to equity ratio	$\frac{\text{Total assets (current + noncurrent)}}{\text{Total equity (equity holders + non-controlling interests)}}$
Operating margin	$\frac{\text{Operating Income}}{\text{Sale of goods and services}}$
Earnings per share	$\frac{\text{Net income attributable to equity holders of the parent}}{\text{Weighted average number of common shares}}$
Interest rate coverage ratio	$\frac{\text{Operating income plus depreciation and amortization}}{\text{Finance costs}}$

**Material Changes in the 2014 Financial Statements  
(Increase/Decrease of 5% or more versus 2013)**

Statements of Income – Six months ended March 31, 2014 versus same period in fiscal 2013

*13.5% increase in sale of goods and services was due to the following:*

Sale of goods and services in URC’s branded consumer foods segment (BCFG), excluding packaging division, increased by ₱6.453 billion, or 20.9%, to ₱37.388 billion for the first half of fiscal 2014 from ₱30.935 billion registered in the same period last year. BCFG domestic operations posted a 26.7% increase in net sales from ₱20.226 billion for the first half of fiscal 2013 to ₱25.622 billion for the first half of fiscal 2014 due to strong performance of its beverage division which grew 42.2% on the back of solid performance by powdered beverage businesses, mainly coming from coffee and complemented by RTD business. Sales for snack foods division grew by 18.0% due to growth across salty snacks, bakery and confectionery segments.

BCFG international operations reported a 9.9% increase in net sales from ₱10.709 billion for the first half of fiscal 2013 to ₱11.766 billion for the first half of fiscal 2014. In US dollar (US\$) terms, sales slightly increased by 1.6% to US\$266 million for the first half of fiscal 2014 against the same period last year. Increase in sales came from Thailand and Vietnam. Thailand growth occurred despite the weak macro environment and the political turmoil in the country mainly due to new product launches. Vietnam showed signs of recovery from the weakness in beverage sales posted last quarter and weak consumer demand which affected total Fast Moving Consumer Goods (FMCG) sales in the country.

Sale of goods and services of BCFG, excluding packaging division, accounted for 81.7% of total URC consolidated sale of goods and services for the first half of fiscal 2014.

Sale of goods and services in URC’s packaging division decreased by 20.8% to ₱452 million for the first half of fiscal 2014 from ₱571 million recorded in the same period last year due to decline in sales volume.

Sale of goods and services in URC's agro-industrial segment (AIG) amounted to ₱4.094 billion for the first half of fiscal 2014, an 8.4% increase from ₱3.778 billion recorded in the same period last year. Farm business increased by 11.7% due to increase in sales volume of hog carcass and higher prices of hogs while feed business slightly increased by 3.6%.

Sale of goods and services in URC's commodity foods segment (CFG) amounted to ₱3.809 billion for the first half of fiscal 2014, a 24.3% decline from ₱5.032 billion reported in the same period last year. Sugar business decreased by 44.6% due to significant decline in volume as sugar cane production was affected by unusually wet season which affected the cane supply for the period. Flour business increased by 6.3% due to higher volume.

*8.9% increase in cost of sales*

Due to increase in sales volume

*14.9% increase in selling and distribution costs*

Due to increase in advertising and promotion costs and freight and delivery charges

*73.1% decrease in finance revenue*

Due to decline in level of financial assets as a result of disposal of bond and equity investments

*101.5% decrease in market valuation gain on financial instruments at fair value through profit or loss*

Due to decline in level of financial assets as a result of disposal of all bond investments and significant portion of equity investments

*51.2% increase in equity in net earnings*

Due to higher net income of Hunt-Universal Robina Corporation

*70.9% decrease in finance costs*

Due to decline in level of financial debt resulting from settlement of long-term and short-term debts

*162.1% decrease in foreign exchange loss - net*

Due to continuous depreciation of subsidiaries' local currencies and Philippine peso vis-à-vis US dollar

*93.4% decrease in other income - net*

Due to gain on sale of bond and equity investments last year

*91.4% increase in provision for income tax*

Due to higher taxable income of the Parent company and subsidiaries

*70.2% increase in net income attributable to non-controlling interest*

Due to higher net income of Nissin-Universal Robina Corporation

*112.3% increase in other comprehensive income*

Due to increase in cumulative translation adjustments from loss last year to gain this year and realization of unrealized gain in value of AFS investments due to disposal last year

Statements of Financial Position - March 31, 2014 versus September 30, 2013

*12.3% decrease in cash and cash equivalents*

Due to payment of dividends and capital expenditures, net of cash sourced from operating activities

*11.8% increase in inventories*

Due to increase in finished goods

*13.3% increase in other current assets*

Due to increase in input taxes

*8.3% increase in property, plant and equipment*

Due to the Group's plant expansion projects

*22.5% increase in investment in joint venture*

Due to equity share in net income of Hunt-URC

*78.9% increase in deferred tax assets - net*

Due to deferred tax assets on unrealized foreign exchange loss and accrual of pension costs

*9.1% increase in other noncurrent assets*

Due to increase in deferred input tax, net of decrease in deposits

*7.4% increase in accounts payable and other accrued liabilities*

Due to increase in various accrued expenses, net of decrease in trade payables

*15.2% decrease in short-term debt*

Due to settlement of loans from a foreign bank

*112.6% increase in trust receipts and acceptances payable*

Due to increase in utilization of trust receipt facilities

*7.2% increase in income tax payable*

Due to increase in taxable income of Parent company and subsidiaries, net of payments during the period

*69.2% decrease in net pension liability*

Due to contributions made to the retirement plan, net of accrual of pension expense

*43.9% increase in other comprehensive income*

Due to increase in cumulative translation adjustments as a result of depreciation of Philippine peso vis-à-vis US dollar

*24.3% decrease in equity attributable to non-controlling interests*

Due to dividends declared, net of net income of Nissin-URC

The Company's key performance indicators are employed across all businesses. Comparisons are then made against internal target and previous period's performance. The Company and its significant subsidiaries' top five (5) key performance indicators are as follows: (in million PhPs)

	<b>Universal Robina Corporation (Consolidated)</b>		<b>Index</b>
	<b>YTD March</b>		
	<b>2014</b>	<b>2013</b>	
Revenues	₱45,743	₱40,316	113
EBIT	7,009	4,929	142
EBITDA	8,868	6,618	134
Net Income	6,223	5,441	114
Total Assets	68,967	62,913	110

	<b>YTD March</b>		<b>Index</b>
	<b>2014</b>	<b>2013</b>	
	Revenues	₱12,537	
EBIT	1,285	1,093	118
EBITDA	1,864	1,572	119
Net Income	1,195	1,090	110
Total Assets	22,930	18,233	126

	<b>YTD March</b>		<b>Index</b>
	<b>2014</b>	<b>2013</b>	
	Revenues	₱-	
EBIT	-	-	-
EBITDA	-	-	-
Net Income	2,346	1,389	169
Total Assets	20,662	15,646	132

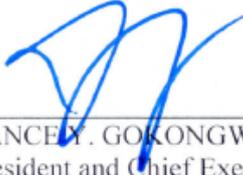
	<b>YTD March</b>		<b>Index</b>
	<b>2014</b>	<b>2013</b>	
	Revenues	₱-	
EBIT	-	-	-
EBITDA	-	-	-
Net Income	118	1,355	9
Total Assets	6,270	7,208	87

	<b>YTD March</b>		<b>Index</b>
	<b>2014</b>	<b>2013</b>	
	Revenues	₱1,128	
EBIT	235	129	182
EBITDA	257	149	172
Net Income	168	94	179
Total Assets	1,069	806	133

**SIGNATURES**

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

**UNIVERSAL ROBINA CORPORATION**



\_\_\_\_\_  
LANCEY. GOKONGWEI  
President and Chief Executive Officer  
Date 05-12-2014



\_\_\_\_\_  
CONSTANTE T. SANTOS  
Senior Vice President - Corporate Controller  
Date 05-12-2014

**UNIVERSAL ROBINA CORPORATION AND SUBSIDIARIES**  
**UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
(In Thousand Pesos)

	Unaudited March 31 2014	Audited September 30 2013
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 7)	P10,547,507	P12,033,309
Financial assets at fair value through profit or loss (Note 8)	405,892	413,732
Available-for-sale investments	21,720	21,720
Receivables (Note 9)	8,387,117	8,522,418
Inventories (Note 10)	12,278,764	10,987,221
Biological assets	1,094,218	1,081,035
Other current assets (Note 11)	417,218	368,103
Total Current Assets	33,152,436	33,427,538
<b>Noncurrent Assets</b>		
Property, plant and equipment (Note 12)	32,686,711	30,180,400
Intangible assets (Note 13)	1,273,628	1,273,628
Biological assets	480,796	483,025
Investment in a joint venture (Note 14)	104,578	85,384
Investment properties (Note 15)	59,005	60,834
Deferred tax assets	691,868	559,311
Other noncurrent assets (Note 16)	517,862	474,847
Total Noncurrent Assets	35,814,448	33,117,429
	<b>P68,966,884</b>	<b>P66,544,967</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and other accrued liabilities (Note 17)	P10,216,462	P9,513,515
Short-term debt (Note 18)	1,649,845	1,945,431
Trust receipts and acceptances payable (Note 10)	5,069,131	2,384,316
Income tax payable	938,935	875,934
Total Current Liabilities	17,874,373	14,719,196
<b>Noncurrent Liabilities</b>		
Deferred tax liabilities	391,324	391,324
Net pension liability	186,396	604,418
Total Noncurrent Liabilities	577,720	995,742
Total Liabilities	18,452,093	15,714,938

(Forward)

	<b>Unaudited March 31 2014</b>	Audited September 30 2013
<b>Equity</b>		
Equity attributable to equity holders of the parent		
Paid-up capital (Note 19)	<b>₱19,056,685</b>	₱19,056,685
Retained earnings (Note 19)	<b>37,395,580</b>	37,774,988
Other comprehensive income	<b>250,988</b>	174,469
Equity Reserve (Note 19)	<b>(5,556,532)</b>	(5,556,532)
Treasury shares (Note 19)	<b>(670,386)</b>	(670,386)
	<b>50,476,335</b>	50,779,224
Equity attributable to non-controlling interests	<b>38,456</b>	50,805
Total Equity	<b>50,514,791</b>	50,830,029
	<b>₱68,966,884</b>	₱66,544,967

*See accompanying Notes to Unaudited Consolidated Financial Statements.*

**UNIVERSAL ROBINA CORPORATION AND SUBSIDIARIES**

**UNAUDITED CONSOLIDATED STATEMENTS OF INCOME**

(In Thousand Pesos, Except Per Share Amount)

	Quarters ended March 31		Six months ended March 31	
	2014	2013	2014	2013
<b>SALE OF GOODS AND SERVICES</b>	<b>₱23,038,072</b>	₱20,232,455	<b>₱45,743,494</b>	₱40,316,023
<b>COST OF SALES</b>	<b>15,632,517</b>	14,532,006	<b>31,635,474</b>	29,046,684
<b>GROSS PROFIT</b>	<b>7,405,555</b>	5,700,449	<b>14,108,020</b>	11,269,339
Selling and distribution costs	(3,133,370)	(2,497,491)	(5,885,069)	(5,122,572)
General and administrative expenses	(604,807)	(627,839)	(1,214,009)	(1,218,188)
<b>OPERATING INCOME</b>	<b>3,667,378</b>	2,575,119	<b>7,008,942</b>	4,928,579
Finance revenue	52,229	117,671	119,181	441,826
Market valuation gain (loss) on financial asset at fair value through profit or loss (Note 8)	(27,005)	255,282	(7,840)	506,118
Finance costs	(32,965)	(91,478)	(63,798)	(220,462)
Foreign exchange (gains) losses - net	250,979	(121,744)	266,361	(429,000)
Equity in net income of a joint venture (Note 15)	4,735	1,519	19,194	12,695
Other income - net	24,940	766,290	53,357	813,883
<b>INCOME BEFORE INCOME TAX</b>	<b>3,940,291</b>	3,502,659	<b>7,395,397</b>	6,053,639
<b>PROVISION FOR INCOME TAX</b>	<b>606,298</b>	357,286	<b>1,172,648</b>	613,081
<b>NET INCOME</b>	<b>₱3,333,993</b>	₱3,145,373	<b>₱6,222,749</b>	₱5,440,558
<b>NET INCOME ATTRIBUTABLE TO:</b>				
Equity holders of the parent	<b>₱3,305,580</b>	₱3,128,491	<b>₱6,165,098</b>	₱5,406,689
Non-controlling interests	<b>28,413</b>	16,882	<b>57,651</b>	33,869
	<b>₱3,333,993</b>	₱3,145,373	<b>₱6,222,749</b>	₱5,440,558
<b>EARNINGS PER SHARE</b> (Note 20)				
Basic/diluted, for income attributable to equity holders of the parent	<b>₱1.52</b>	₱1.43	<b>₱2.83</b>	₱2.48

**UNIVERSAL ROBINA CORPORATION AND SUBSIDIARIES**

**UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(In Thousand Pesos, Except Per Share Amount)

	<b>Six Months Ended March 31</b>	
	<b>2014</b>	<b>2013</b>
<b>NET INCOME</b>	<b>₱6,222,749</b>	<b>₱5,440,558</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>		
<i>Items to be reclassified to profit or loss in subsequent periods</i>		
Unrealized loss on AFS investments	-	(650,505)
Cumulative translation adjustments	<b>76,519</b>	29,669
	<b>76,519</b>	(620,836)
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>₱6,299,268</b>	<b>₱4,819,722</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		
<b>ATTRIBUTABLE TO:</b>		
Equity holders of the parent	<b>₱6,241,617</b>	₱4,785,853
Non-controlling interests	<b>57,651</b>	33,869
	<b>₱6,299,268</b>	<b>₱4,819,722</b>

*See accompanying Notes to Unaudited Consolidated Financial Statements*

**UNIVERSAL ROBINA CORPORATION AND SUBSIDIARIES**  
**UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
(In Thousand Pesos)

	<b>Six Months Ended March 31</b>	
	<b>2014</b>	2013 (As restated)
<b>PAID-UP CAPITAL (Note 19)</b>		
Capital Stock		
Balance at beginning and end of period	<b>₱2,227,639</b>	₱2,227,639
Additional Paid-in Capital		
Balance at beginning and end of period	<b>16,829,046</b>	16,829,046
	<b>19,056,685</b>	19,056,685
<b>RETAINED EARNINGS (Note 19)</b>		
Appropriated		
Balance at beginning and end of period	<b>5,000,000</b>	5,000,000
Unappropriated		
Balance at beginning of year	<b>32,774,988</b>	27,956,735
Net income	<b>6,165,098</b>	5,406,689
Cash dividends	<b>(6,544,506)</b>	-
Balance at end of period	<b>32,395,580</b>	33,363,424
Balance at end of period	<b>37,395,580</b>	38,363,424
<b>OTHER COMPREHENSIVE INCOME</b>		
Cumulative Translation Adjustment		
Balance at beginning of year	<b>601,100</b>	142,947
Adjustments	<b>76,519</b>	29,669
Balance at end of period	<b>677,619</b>	172,616
Net Unrealized Gain on Available-for-Sale Investments		
Balance at beginning of year	-	650,505
Changes in fair value	-	(35,400)
Reclassification adjustment included in profit and loss arising from disposal of AFS investment	-	(615,105)
Balance at end of period	-	-
Remeasurement Losses on Defined Benefit Plans		
Balance at beginning and end of period	<b>(426,631)</b>	-
	<b>250,988</b>	172,616
<b>EQUITY RESERVE (Note 19)</b>		
Balance at beginning and end of period	<b>(5,556,532)</b>	(5,556,532)
<b>TREASURY SHARES (Note 19)</b>		
Balance at beginning and end of period	<b>(670,386)</b>	(670,386)
<b>EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS</b>		
Balance at beginning of year	<b>50,805</b>	36,597
Net income	<b>57,651</b>	33,869
Dividends	<b>(70,000)</b>	(56,000)
Balance at end of period	<b>38,456</b>	14,466
	<b>₱50,514,791</b>	₱51,380,273

See accompanying Notes to Unaudited Consolidated Financial Statements.

**UNIVERSAL ROBINA CORPORATION AND SUBSIDIARIES**  
**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In Thousand Pesos)

	<b>Six Months Ended March 31</b>	
	<b>2014</b>	<b>2013</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	<b>₱7,395,397</b>	₱6,053,639
Adjustments for:		
Depreciation and amortization	<b>1,858,839</b>	1,689,842
Market valuation loss (gain) on financial at fair value through profit or loss	<b>7,840</b>	(506,118)
Finance revenue	<b>(119,181)</b>	(441,826)
Finance cost	<b>63,798</b>	220,462
Net foreign exchange loss (gain)	<b>(266,361)</b>	429,000
Gain arising from changes in fair value less estimated costs to sell of swine stocks	<b>(171,823)</b>	(62,066)
Equity in net income of joint venture	<b>(19,194)</b>	(12,695)
Gain on sale of:		
Property, plant and equipment	<b>(9,529)</b>	(7,558)
Available-for-sale investments	-	(685,489)
Financial assets at FVPL	-	(54,799)
Amortization of bond issue costs	-	9,544
Operating income before changes in working capital	<b>8,739,786</b>	6,631,936
Decrease (increase) in:		
Receivables	<b>386,822</b>	(1,268,762)
Inventories	<b>(1,291,543)</b>	(947,015)
Biological assets	<b>160,869</b>	78,794
Other current assets	<b>(49,116)</b>	60,716
Increase (decrease) in:		
Accounts payable and other accrued liabilities	<b>706,794</b>	470,037
Trust receipts and acceptances payable	<b>2,600,856</b>	(3,242,129)
Cash generated from operations	<b>11,254,468</b>	1,783,577
Interest received	<b>117,888</b>	657,824
Income taxes paid	<b>(1,242,204)</b>	(628,402)
Interest paid	<b>(64,483)</b>	(241,248)
Net cash provided by operating activities	<b>10,065,669</b>	1,571,751
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisitions of:		
Property, plant and equipment	<b>(4,260,576)</b>	(3,174,679)
Financial assets at fair value through profit or loss	-	-
Proceeds from sale of:		
Property, plant and equipment	<b>10,235</b>	8,116
Financial assets at FVPL	-	10,520,605
Available-for-sale investments	-	4,717,681
Decrease (increase) in other noncurrent assets	<b>(43,015)</b>	9,725
Increase (decrease) in net pension liability	<b>(418,023)</b>	48,937
Net cash provided by (used in) investing activities	<b>(₱4,711,379)</b>	₱12,130,385

	<b>Six Months Ended March 31</b>	
	<b>2014</b>	<b>2013</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividends paid	<b>(P6,544,506)</b>	P-
Net repayments of:		-
Short term debt	<b>(295,586)</b>	(5,990,499)
Long term debt	-	(3,000,000)
Net cash used in financing activities	<b>(6,840,092)</b>	(8,990,499)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(1,485,802)</b>	4,711,637
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>12,033,309</b>	5,345,833
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>P10,547,507</b>	P10,057,470

*See accompanying Notes to Unaudited Consolidated Financial Statements.*

## **UNIVERSAL ROBINA CORPORATION AND SUBSIDIARIES**

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### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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#### **1. Corporate Information**

Universal Robina Corporation (hereinafter referred to as “the Parent Company” or “URC”) is incorporated and domiciled in the Republic of the Philippines, and is listed in the Philippine Stock Exchange. The registered office address of the Parent Company is 110 E. Rodriguez Avenue, Bagumbayan, Quezon City, Philippines.

The Parent Company is a majority owned subsidiary of JG Summit Holdings, Inc. (“the Ultimate Parent Company” or “JGSHI”).

The Parent Company and its subsidiaries (hereinafter referred to as “the Group”) is one of the largest branded food products companies in the Philippines and has a growing presence in other markets in Asia. The Group is involved in a wide range of food-related businesses which are organized into three (3) business segments: (a) the branded consumer food segment which manufactures and distributes a diverse mix of salty snacks, chocolates, candies, biscuits, bakery products, beverages, noodles and tomato-based products; (b) the agro-industrial segment which engages in hog and poultry farming, production and distribution of animal health products and manufacture and distribution of animal feeds, glucose and soya bean products; and (c) the commodity food segment which engages in sugar milling and refining, flour milling and pasta manufacturing. The Parent Company also engages in consumer product-related packaging business through its packaging division which manufactures bi-axially oriented polypropylene (BOPP) film and through its subsidiary, CFC Clubhouse Property, Inc. (CCPI), which manufactures polyethylene terephthalate (PET) bottles and printed flexible packaging materials. The Parent Company’s packaging business is included in the branded consumer food segment.

On February 10, 2012 and April 18, 2012, the Board of Directors (BOD) and Stockholders, respectively, approved the amendments to the Articles of Incorporation (AOI) of the Parent Company to include in its purpose the business of producing fuel ethanol and other similar products and to carry on all activities and services incidental and/or ancillary for such. On May 25, 2012, the Philippine Securities and Exchange Commission (SEC) approved the amendment to the secondary purpose of the Parent Company.

Also, on November 26, 2012, the BOD and Stockholders approved the amendment to the AOI of the Parent Company to include in its secondary purpose the business of power generation either for use of the Parent Company and its division and/or for sale. On March 21, 2013, the SEC approved the amendment to the secondary purpose.

On October 29, 2012, CCPI transferred its pet bottle operations to the Parent Company.

The operations of certain subsidiaries are registered with the Board of Investments (BOI) as preferred pioneer and nonpioneer activities. Under the terms of the registrations and subject to certain requirements, the Parent Company and certain subsidiaries are entitled to certain fiscal and non-fiscal incentives, including among others, an income tax holiday (ITH) for a period of four (4) years to six (6) years from respective start dates of commercial operations. The Group is also subject to certain regulations with respect to, among others, product composition, packaging, labeling, advertising and safety.

The principal activities of the Group are further described in Note 6 to the consolidated financial statements.

## 2. Summary of Significant Accounting Policies

### Basis of Preparation

The accompanying consolidated financial statements of the Group have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVPL), available-for-sale (AFS) investments and derivative financial instruments that have been measured at fair value, and biological assets and agricultural produce that have been measured at fair value less estimated costs to sell.

The consolidated financial statements of the Group are presented in Philippine Peso. The functional and presentation currency of the Parent Company and its Philippine subsidiaries (as well as certain foreign subsidiaries) is the Philippine Peso.

### Statement of Compliance

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

### Basis of Consolidation

The consolidated financial statements include the financial statements of the Parent Company and the following wholly and majority owned subsidiaries:

Subsidiaries	Country of Incorporation	Effective Percentages of Ownership	
		2014	2013
CCPI	Philippines	<b>100.00</b>	100.00
CFC Corporation	- do -	<b>100.00</b>	100.00
Bio-Resource Power Generation	- do -	<b>100.00</b>	100.00
Southern Negros Development Corporation	- do -	<b>94.00</b>	94.00
Nissin-URC	- do -	<b>65.00</b>	65.00
URC Philippines, Limited (URCPL)	British Virgin Islands	<b>100.00</b>	100.00
URC International Co. Ltd. (URCICL) and Subsidiaries*	- do -	<b>100.00</b>	100.00
Universal Robina (Cayman), Ltd. (URCL)	Cayman Islands	<b>100.00</b>	100.00
URC China Commercial Co., Ltd.	China	<b>100.00</b>	100.00

\* Subsidiaries are located in Thailand, Singapore, Malaysia, Vietnam, Indonesia, China and Hong Kong

In August 2012, the BOD approved the acquisition by the Parent Company of 23.00% of the capital stock of URCICL owned by a minority shareholder, International Horizons Investments Ltd., for ₱7.2 billion. The acquisition of the shares allowed the Parent Company to consolidate 100.00% of the earnings of URCICL after the date of acquisition (see Note 19).

The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. All significant intercompany transactions and balances, including intercompany profits and unrealized profits and losses, are eliminated in the consolidation.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Parent Company obtains control, and continue to be consolidated until the date that such control ceases. Control is achieved where the Parent Company has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. Consolidation of subsidiaries ceases when control is transferred out of the Parent Company.

Acquisitions of subsidiaries are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at fair value at acquisition date and the amount of any non-controlling interest (NCI) in the acquiree. Acquisition-related costs are recognized in the consolidated statements of income as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any NCI.

Any excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities represents goodwill. Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of business combination is recognized in the consolidated statement of income on the date of acquisition.

NCIs in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. The interest of non-controlling shareholders may be initially measured at fair value or at the NCI's proportionate share of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, NCIs consist of the amount attributed to such interests at initial recognition and the NCI's share of changes in equity since the date of combination.

Changes in the Group's interest in subsidiary that do not result in a loss of control are accounted for as equity transactions. Any difference between the amount by which the NCIs are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the Group.

#### Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial years, except that the Group has adopted the following PFRS and Philippine Accounting Standards (PAS) and Philippine Interpretations based on International Financial Reporting Interpretations Committee (IFRIC) interpretations which are effective for the Group beginning October 1, 2012. The adoption of the new and amended standards and interpretations did not have any effect on the consolidated financial statements of the Group. They did, however, give rise to additional disclosures.

On October 1, 2012, the Group early adopted the following new and amended accounting standards and interpretations which are mandatory for the Group for the fiscal year beginning October 1, 2013.

- PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income or OCI* (Amendments)  
The amendments to PAS 1 change the grouping of items presented in OCI. Items that can be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. The amendments affect presentation only and have no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after July 1, 2012. The amendments will be applied retrospectively and will result to the modification of the presentation of items of OCI.

- **PAS 19, *Employee Benefits* (Revised)**  
For defined benefit plans, the Revised PAS 19 requires all actuarial gains and losses to be recognized in other comprehensive income and unvested past service costs previously recognized over the average vesting period to be recognized immediately in profit or loss when incurred.

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

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

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

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

The changes in accounting policies have been applied retrospectively. The adoption did not have a significant impact on consolidated statement of cash flows.

#### *Change of presentation*

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

#### *Restatement*

Prior periods have been restated due to early adoption of Revised PAS 19 and the change in the presentation of the consolidated statements of income.

### **Significant Accounting Policies**

#### Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates and other sales taxes or duties.

The following specific recognition criteria must also be met before revenue is recognized:

*Sale of goods*

Revenue from sale of goods is recognized upon delivery, when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable, net of any trade discounts, prompt payment discounts and volume rebates.

*Rendering of services*

Revenue derived from tolling activities, whereby raw sugar from traders and planters is converted into refined sugar, is recognized as revenue when the related services have been rendered.

*Dividend income*

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

*Rent income*

Rent income arising on investment properties is accounted for on a straight-line basis over the lease term on ongoing leases.

*Interest income*

Interest income is recognized as it accrues using the effective interest rate (EIR) method under which interest income is recognized at the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

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 from dates of placement, and that are subject to insignificant risk of changes in value.

Recognition of Financial Instruments

*Date of recognition*

The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. Derivatives are recognized on a trade date basis.

*Initial recognition of financial instruments*

Financial instruments are recognized initially at fair value. Except for financial instruments valued at FVPL, the initial measurement of financial assets includes transaction costs. The Group classifies its financial assets into the following categories: financial assets at FVPL, AFS investments and loans and receivables. The Group classifies its financial liabilities into financial liabilities at FVPL and other financial liabilities.

The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every statement of financial position date.

*Determination of fair value*

The fair value for financial instruments traded in active markets at the statement of financial position date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and ask

prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

#### *Day 1 profit*

Where the transaction price in a non-active market is different from the fair value based on other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from an observable market, the Group recognizes the difference between the transaction price and fair value (a Day 1 profit) in the consolidated statement of income. In cases where variables used are made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of 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 profit amount.

#### *Financial assets and financial liabilities at FVPL*

Financial assets and financial liabilities at FVPL include financial assets and financial liabilities held for trading purposes, derivative instruments, or those designated upon initial recognition when any of the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- 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.

Financial assets and financial liabilities at FVPL are recorded in the consolidated statement of financial position at fair value. Changes in fair value are reflected in the consolidated statement of income. Interest earned or incurred is recorded in interest income or expense, respectively, while dividend income is recorded in other operating income according to the terms of the contract, or when the right of the payment has been established.

The Group's financial assets at FVPL consist of equity securities (see Note 8).

#### *Derivatives recorded at FVPL*

The Group uses derivative financial instruments such as currency forwards and currency options to hedge the risks associated with foreign currency and interest rate fluctuations. Such derivative financial instruments are initially recorded at fair value on the date at which the derivative contract is entered into and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair values of derivatives (except those accounted for as accounting hedges) are taken directly in the consolidated statement of income. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The fair values of the Group's derivative instruments are based on quotes obtained from counterparties.

*Embedded derivatives*

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and c) the hybrid or combined instrument is not recognized at FVPL.

Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. The Group determines whether a modification to cash flows is significant by considering the extent to which the expected future cash flows associated with the embedded derivative, the host contract or both have changed and whether the change is significant relative to the previously expected cash flow on the contract.

*Loans and receivables*

Loans and receivables are nonderivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortized cost using the EIR method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the EIR and transaction costs. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process. Loans and receivables are included in current assets if maturity is within 12 months from the statement of financial position date. Otherwise, these are classified as noncurrent assets.

This accounting policy applies primarily to the Group's trade and other receivables (see Note 9).

*AFS investments*

AFS investments are those nonderivative investments which are designated as such or do not qualify to be classified or designated as financial assets at FVPL, held-to-maturity investments or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, AFS investments are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in the consolidated statement of comprehensive income. The unrealized gains and losses arising from the fair valuation of AFS investments are excluded, net of tax, from reported earnings and are reported under the 'Other comprehensive income' section of the consolidated statement of comprehensive income.

When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the consolidated statement of income. Interest earned on holding AFS investments are reported as interest income using the EIR method. Where the Group holds more than one investment in the same security, these are deemed to be disposed of on a first-in, first-out basis.

Dividends earned on holding AFS investments are recognized in the consolidated statement of income, when the right to receive payment has been established. The losses arising from impairment of such investments are recognized in the consolidated statement of income.

AFS investments held by the Group consist of equity securities.

#### *Other financial liabilities*

Issued financial instruments or their components, which are not designated at FVPL are classified as other financial liabilities where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

All loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable debt issuance costs. Debt issuance costs are amortized using the EIR method and unamortized debt issuance costs are offset against the related carrying value of the loan in the consolidated statement of financial position.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

When a loan is paid, the related unamortized debt issuance costs at the date of repayment are charged against current operations. Gains and losses are recognized in the consolidated statement of income when the liabilities are derecognized or impaired, as well as through the amortization process.

This accounting policy applies primarily to the Group's short-term (see Note 18), accounts payable and other accrued liabilities (see Note 17) and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as pension liabilities or income tax payable).

#### Debt Issuance Costs

Debt issuance costs are amortized using EIR method and unamortized debt issuance costs are included in the measurement of the related carrying value of the loan in the consolidated statement of financial position. When loan is repaid, the related unamortized debt issuance costs at the date of repayment are charged in the consolidated statement of income.

#### Classification of Financial Instruments Between Debt and Equity

A financial instrument is classified as debt if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

#### Reclassification of Financial Assets

A financial asset is reclassified out of the FVPL category when the following conditions are met:

- the financial asset is no longer held for the purpose of selling or repurchasing it in the near term;

- and
- there is a rare circumstance.

A financial asset that is reclassified out of the FVPL category is reclassified at its fair value on the date of reclassification. Any gain or loss already recognized in the consolidated statement of income is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

#### Impairment of Financial Assets

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

#### *Financial assets carried at amortized cost*

If there is objective evidence that an impairment loss on financial assets carried at amortized cost (i.e., receivables) has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original EIR. The carrying amount of the asset is reduced through the use of an allowance account. The loss is recognized in the consolidated statement of income. The asset, together with the associated allowance accounts, is written off when there is no realistic prospect of future recovery.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. 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 and that group of financial assets is collectively assessed for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtor's ability to pay all amounts due according to the contractual terms of the assets being evaluated. 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, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed.

Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

The Group performs a regular review of the age and status of its trade and other receivables, designed to identify receivables with objective evidence of impairment and provide the appropriate allowance for impairment loss. The review is accomplished using a combination of specific and collective assessment approaches, with the impairment loss being determined for each risk grouping identified by the Group.

### *AFS investments*

The Group assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In the case of debt instruments classified as AFS investments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded under interest income in the consolidated statement of income. If, in subsequent year, the fair value of a debt instrument increases, and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through in the consolidated statement of income.

For equity investments classified as AFS investments, objective evidence would include a significant or prolonged decline in the fair value of the investments below its cost. The determination of what is significant and prolonged is subject to judgment. 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 investment previously recognized in the statement of income - is removed from equity and recognized in the statement of comprehensive income. Impairment losses on equity investments are not reversed through the statement of income. Increases in fair value after impairment are recognized directly as part of the other comprehensive income.

### Derecognition of Financial Instruments

#### *Financial assets*

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

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

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

#### *Financial liabilities*

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of income.

### Financial Guarantee Contracts

In the ordinary course of business, the Parent Company gives financial guarantees. Financial guarantees are initially recognized at fair value, and the initial fair value is amortized over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortized amount and the present value of any expected payment (when a payment under the guaranty has become probable).

### Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements; thus, the related assets and liabilities are presented gross in the consolidated statement of financial position.

### Inventories

Inventories, including goods-in-process, are valued at the lower of cost or net realizable value (NRV). NRV is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. NRV for materials, spare parts and other supplies represents the related replacement costs.

Costs incurred in bringing each product to its present location and conditions are accounted for as follows:

#### *Finished goods, work-in-process, raw materials, containers and packaging materials*

Cost is determined using the weighted average method. Finished goods and work-in-process include direct materials and labor, and a proportion of manufacturing overhead costs based on actual goods processed and produced, but excluding borrowing costs.

#### *Materials in-transit*

Cost is determined using the specific identification basis.

#### *Spare parts and supplies*

Cost is determined using the weighted average method.

### Biological Assets

The biological assets of the Group are divided into two major categories with sub-categories as follows:

- |                   |   |  |
|-------------------|---|--|
| Swine livestock   | - | Breeders (livestock bearer)  |
|                   | - | Sucklings (breeders' offspring)  |
|                   | - | Weanlings (comes from sucklings intended to be breeders or to be sold as fatteners)                      |
|                   | - | Fatteners/finishers (comes from weanlings unfit to become breeders; intended for the production of meat) |
| Poultry livestock | - | Breeders (livestock bearer)  |
|                   | - | Chicks (breeders' offspring intended to be sold as breeders)   |

Biological assets are measured on initial recognition and at each statement of financial position date at its fair value less estimated costs to sell, except for a biological asset where fair value is not clearly determinable. Agricultural produce harvested from an entity's biological assets are measured at its fair value less estimated costs to sell at the time of harvest.

The Group is unable to measure fair values reliably for its poultry livestock breeders in the absence of: (a) available market determined prices or values; and (b) alternative estimates of fair values that are determined to be clearly reliable; thus, these biological assets are measured at cost less accumulated depreciation and any accumulated impairment losses. However, once the fair values become reliably measurable, the Group measures these biological assets at their fair values less estimated costs to sell.

Agricultural produce is the harvested product of the Group's biological assets. A harvest occurs when agricultural produce is either detached from the bearer biological asset or when a biological asset's life processes cease. A gain or loss arising on initial recognition of agricultural produce at fair value less estimated costs to sell is recognized in the consolidated statement of comprehensive income in the period in which it arises. The agricultural produce in swine livestock is the suckling that transforms into weanling then into fatteners/ finishers, while the agricultural produce in poultry livestock is the hatched chick and table eggs.

#### *Biological assets at cost*

The cost of a biological asset comprises its purchase price and any costs attributable in bringing the biological asset to its location and conditions intended by management.

Depreciation is computed using the straight-line method over the estimated useful lives (EUL) of the biological assets, regardless of utilization. The EUL of biological assets is reviewed annually based on expected utilization as anchored on business plans and strategies that considers market behavior to ensure that the period of depreciation is consistent with the expected pattern of economic benefits from items of biological assets. The EUL of biological assets ranges from two to three years.

The carrying values of biological assets are reviewed for impairment when events or changes in the circumstances indicate that the carrying values may not be recoverable (see further discussion under Impairment of Nonfinancial Assets).

#### *Biological assets carried at fair values less estimated costs to sell*

Swine livestock are measured at their fair values less costs to sell. The fair values are determined based on current market prices of livestock of similar age, breed and genetic merit. Costs to sell include commissions to brokers and dealers, nonrefundable transfer taxes and duties. Costs to sell exclude transport and other costs necessary to get the biological assets to the market.

A gain or loss on initial recognition of a biological asset at fair value less estimated costs to sell and from a change in fair value less estimated costs to sell of a biological asset shall be included in the consolidated statement of income in the period in which it arises.

#### Assets Held for Sale

The Group classifies assets as held for sale (disposal group) when their carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable. For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset and an active program to locate a buyer and complete the plan must have been initiated. Furthermore, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

The related results of operations and cash flows of the disposal group that qualify as discontinued operations are separated from the results of those that would be recovered principally through continuing use, and the prior years' consolidated statements of income and consolidated statement of

cash flows are re-presented. The results of operations and cash flows of the disposal group that qualify as discontinued operations are presented in the consolidated statement of income and consolidated statement of cash flows as items associated with discontinued operations.

In circumstances where certain events have extended the period to complete the sale of a disposal group beyond one year, the disposal group continues to be classified as held for sale if the delay is caused by events or circumstances beyond the Group's control and there is sufficient evidence that the Group remains committed to its plan to sell the disposal group. Otherwise, if the criteria for classification of a disposal group as held for sale are no longer met, the Group ceases to classify the disposal group as held for sale.

*Initial and subsequent measurement*

Assets held for sale are measured at the lower of their carrying amount or fair value less costs to sell. Impairment losses are recognized for any initial or subsequent write-down of the assets held for sale to the extent that these have not been previously recognized at initial recognition. Reversals of impairment losses for any subsequent increases in fair value less cost to sell of the assets held for sale are recognized as a gain, but not in excess of the cumulative impairment loss that has been previously recognized.

Property, Plant and Equipment

Property, plant and equipment, except land, are carried at cost less accumulated depreciation and amortization and impairment losses, if any. The cost of an item of property, plant and equipment comprises its purchase price and any cost attributable in bringing the asset to its intended location and working condition.

Cost also includes: (a) interest and other financing charges on borrowed funds used to finance the acquisition of property, plant and equipment to the extent incurred during the period of installation and construction; and (b) asset retirement obligation relating to property, plant and equipment installed/constructed on leased properties, if any.

Land is stated at cost less any impairment in value.

Subsequent costs are capitalized as part of the 'Property, plant and equipment', only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged against current operations as incurred.

Foreign exchange differentials arising from foreign currency borrowings used for the acquisition of property, plant and equipment are capitalized to the extent that these are regarded as adjustments to interest costs.

Construction-in-progress is stated at cost. This includes the cost of construction and other direct costs. Borrowing costs that are directly attributable to the construction of property, plant and equipment are capitalized during the construction period. Construction in-progress is not depreciated until such time as the relevant assets are completed and put into operational use.

Construction in-progress are transferred to the related 'Property, plant and equipment' when the construction or installation and related activities necessary to prepare the property, plant and equipment for their intended use are completed, and the property, plant and equipment are ready for service.

Depreciation and amortization of property, plant and equipment commence, once the property, plant and equipment are available for use and are computed using the straight-line method over the EUL of the assets regardless of utilization.

The EUL of property, plant and equipment of the Group follow:

	Years
Land improvements	20
Buildings and improvements	10 to 30
Machinery and equipment	10
Transportation equipment	5
Furniture, fixtures and equipment	5

Leasehold improvements are amortized over the shorter of their EUL or the corresponding lease terms.

The residual values, useful lives and methods of depreciation and amortization of property, plant and equipment are reviewed and adjusted, if appropriate, at each financial year-end.

Major spare parts and stand-by equipment items that the Group expects to use over more than one period and can be used only in connection with an item of property, plant and equipment are accounted for as property, plant and equipment. Depreciation and amortization on these major spare parts and stand-by equipment commence once these have become available for use (i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by the Group).

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

Fully depreciated property, plant and equipment are retained in the accounts until these are no longer in use.

#### Investment Properties

Investment properties consist of properties that are held to earn rentals or for capital appreciation or both, and those which are not occupied by entities in the Group. Investment properties, except for land, are carried at cost less accumulated depreciation and any impairment in value. Land is carried at cost less any impairment in value. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met, and excludes the cost of day-to-day servicing of an investment property.

Investment properties are measured initially at cost, including transaction costs. Transaction costs represent nonrefundable taxes such as capital gains tax and documentary stamp tax that are for the account of the Group. An investment property acquired through an exchange transaction is measured at fair value of the asset acquired unless the fair value of such an asset cannot be measured in, which case, the investment property acquired is measured at the carrying amount of asset given up.

The Group's investment properties are depreciated using the straight-line method over their EUL as follows:

	Years
Land improvements	10
Buildings and building improvements	10 to 30

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

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

For a transfer from investment property to owner-occupied property to inventories, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under Property, Plant and Equipment account up to the date of change in use.

#### Goodwill

Goodwill represents the excess of the cost of the acquisition over the fair value of identifiable net assets of the investee at the date of acquisition which is not identifiable to specific assets. Goodwill acquired in a business combination from the acquisition date is allocated to each of the Group's cash-generating units, or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Following initial recognition, goodwill is measured at cost, less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired (see further discussion under Impairment of Nonfinancial Assets).

If the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the costs of the business combination, the acquirer shall recognize immediately in the consolidated statement of income any excess remaining after reassessment.

#### Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are measured at cost less any accumulated amortization and impairment losses, if any.

The EUL of intangible assets are assessed to be either finite or indefinite.

The useful lives of intangible assets with a finite life are assessed at the individual asset level. Intangible assets with finite lives are amortized over the asset's EUL and assessed for impairment, whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the EUL or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite useful lives is recognized in the consolidated statement of income in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or

at the cash-generating unit level (see further discussion under Impairment of Nonfinancial Assets). Such intangibles are not amortized. The useful life of an intangible asset with an indefinite useful life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

A gain or loss arising from derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the asset and is recognized in the consolidated statement of income when the asset is derecognized.

A summary of the policies applied to the Group's intangible assets follows:

	Product Formulation	Trademarks	
EUL	Indefinite	Indefinite	Finite (4 years)
Amortization method used	No amortization	No amortization	Straight-line amortization
Internally generated or acquired	Acquired	Acquired	Acquired

#### Investment in a Joint Venture

The Group has a 50.00% interest in Hunt-Universal Robina Corporation (HURC), a joint venture which is a jointly controlled entity. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, and a jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest.

The Group's investment in a joint venture is accounted for using the equity method of accounting. Under the equity method, the investment in a joint venture is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share in the net assets of the joint venture. The consolidated statement of income reflects the Group's share in the results of operations of the joint venture. Where there has been a change recognized directly in the investees' equity, the Group recognizes its share of any changes and discloses this, when applicable, in the other comprehensive income in the consolidated statement of changes in equity.

The investee company's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

#### Impairment of Nonfinancial Assets

This accounting policy applies primarily to the Group's property, plant and equipment (see Note 12), investment properties (see Note 15), intangible assets (see Note 13), investment in a joint venture (see Note 14) and biological assets at cost.

The Group assesses at each statement of financial position date whether there is an indication that its nonfinancial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Group makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's (or cash-generating unit's) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash-generating unit to which it belongs. Where the carrying amount of an asset (or cash generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash-generating unit).

Impairment losses are recognized in the consolidated statement of income.

For assets excluding goodwill, an assessment is made at each statement of financial position date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income. After such a reversal, the depreciation and amortization expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

The following criteria are also applied in assessing impairment of specific assets:

#### *Goodwill*

Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount to which goodwill has been allocated, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit (or group of cash-generating units) and part of the operations within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative fair values of the operation disposed of and the portion of the cash-generating unit retained. Impairment losses relating to goodwill cannot be reversed in future periods.

#### *Biological assets at cost*

The carrying values of biological assets are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

#### *Intangible assets*

Intangible assets with indefinite EUL are tested for impairment annually as of year-end either individually or at the cash-generating unit level, as appropriate.

#### *Investment in a joint venture*

After application of the equity method, the Group determines whether it is necessary to recognize an additional impairment loss on the Group's investment in a joint venture. If this is the case, the Group calculates the amount of impairment as being the difference between the fair value of the joint venture and the acquisition cost and recognizes the amount in the profit or loss in the consolidated statement of comprehensive income.

#### Treasury Shares

Treasury shares are recorded at cost and are presented as a deduction from equity. Any consideration paid or received in connection with treasury shares are recognized directly in equity.

When the shares are retired, the capital stock account is reduced by its par value. The excess of cost over par value upon retirement is debited to the following accounts in the order given: (a) additional

paid-in capital to the extent of the specific or average additional paid-in capital when the shares were issued, and (b) retained earnings. When shares are sold, the treasury share account is credited and reduced by the weighted average cost of the shares sold. The excess of any consideration over the cost is credited to additional paid-in capital.

Transaction costs incurred such as registration and other regulatory fees, amounts paid to legal, accounting and other professional advisers, printing costs and stamp duties (net of any related income tax benefit) in relation to issuing or acquiring the treasury shares are accounted for as reduction from equity, which is disclosed separately.

No gain or loss is recognized in the consolidated statement of income on the purchase, sale, issue or cancellation of the Group's own equity instruments.

#### Provisions

Provisions are recognized when: (a) the Group has a present obligation (legal or constructive) as a result of a past event; (b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each statement of financial position date and adjusted to reflect the current best estimate. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense in the consolidated statement of comprehensive income. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is probable.

#### Contingencies

Contingent liabilities are not recognized in the consolidated financial statements but disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

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

#### Retirement Obligation

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

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

Defined benefit costs comprise the following:

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

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

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

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

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

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

#### Termination benefit

Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.

#### Employee leave entitlement

Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

#### Income Taxes

##### *Current 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 are enacted or substantially enacted at the statement of financial position date.

#### *Deferred tax*

Deferred tax is provided using the balance sheet liability method on all temporary differences, with certain exceptions, at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, with certain exceptions. Deferred tax assets are recognized for all deductible temporary differences with certain exceptions, and carryforward benefits of unused tax credits from excess minimum corporate income tax (MCIT) over regular corporate income tax 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 carryforward benefits of unused tax credits from excess MCIT and unused NOLCO can be utilized.

Deferred tax assets are not recognized when they arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of transaction, affects neither the accounting income nor taxable income or loss. Deferred tax liabilities are not provided on nontaxable temporary differences associated with investments in domestic subsidiaries, associates and interests in joint ventures. With respect to investments in foreign subsidiaries, associates and interests in joint ventures, deferred tax liabilities are recognized except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amounts of deferred tax assets are reviewed at each statement of financial position 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 statement of financial position date, and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax assets to be recognized.

Deferred tax assets and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as of the statement of financial position date. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

#### Borrowing Costs

Interest and other finance costs incurred during the construction period on borrowings used to finance property development are capitalized to the appropriate asset accounts. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress, and expenditures and borrowing costs are being incurred. The capitalization of these borrowing costs ceases when substantially all the activities necessary to prepare the asset for sale or its intended use are complete. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded. Capitalized borrowing cost is based on the applicable weighted average borrowing rate. Borrowing costs which do not qualify for capitalization are expensed as incurred.

Interest expense on loans is recognized using the EIR method over the term of the loans.

#### Leases

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

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

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

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

#### *Group as a lessee*

Finance leases which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the consolidated statement of income.

A lease is depreciated over the EUL of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the EUL of the asset and the lease term.

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

#### *Group as a lessor*

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.

#### Expenses

Expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Expenses are recognized when incurred.

#### Foreign Currency Translation/Transactions

The functional and presentation currency of the Parent Company and its Philippine subsidiaries (as well as certain consolidated foreign subsidiaries) is the Philippine Peso.

Each entity in the Group determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the statement of financial position date. All differences are taken to the consolidated statement of comprehensive income. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in statement of comprehensive income. Nonmonetary items that are measured in terms of historical cost in a

foreign currency are translated using the exchange rate as at the date of initial transaction. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of the Group's consolidated foreign subsidiaries follow:

Subsidiaries	Country of Incorporation	Functional Currency
URCL	Cayman Islands	Philippine Peso
URCPL	British Virgin Islands	- do -
URC Asean Brands Co. Ltd. (UABCL)	- do -	US Dollar
Hong Kong China Foods Co. Ltd. (HCFCL)	- do -	- do -
URCICL	- do -	- do -
Shanghai Peggy Foods Co., Ltd.	China	Chinese Renminbi
URC China Commercial Co. Ltd.	- do -	- do -
Xiamen Tongan Pacific Food Co., Ltd.	- do -	- do -
Guangzhou Peggy Foods Co., Ltd.	- do -	- do -
Shantou SEZ Shanfu Foods Co., Ltd.	- do -	- do -
Jiangsu Acesfood Industrial Co., Ltd.	- do -	- do -
URC Hong Kong Company Limited	Hong Kong	Hong Kong Dollar
PT URC Indonesia	Indonesia	Indonesian Rupiah
URC Snack Foods (Malaysia) Sdn. Bhd.	Malaysia	Malaysian Ringgit
Ricellent Sdn. Bhd.	- do -	- do -
URC Foods (Singapore) Pte. Ltd.	Singapore	Singapore Dollar
Acesfood Network Pte. Ltd.	- do -	- do -
Acesfood Holdings Pte. Ltd.	- do -	- do -
Acesfood Distributors Pte. Ltd.	- do -	- do -
Advanson International Pte. Ltd.	- do -	- do -
URC (Thailand) Co., Ltd.	Thailand	Thai Baht
Continental Milling Co. Ltd.	- do -	- do -
Siam Pattanasin Co., Ltd.	- do -	- do -
URC (Myanmar) Co. Ltd.	Myanmar	Myanmar Kyats
URC Vietnam Co., Ltd.	Vietnam	Vietnam Dong
URC Hanoi Company Limited	- do -	- do -
URC Central Co. Ltd.	- do -	- do -

As of the statement of financial position date, the assets and liabilities of these subsidiaries are translated into the presentation currency of the Group at the rate of exchange ruling at the statement of financial position date and their respective statements of comprehensive income are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognized in equity relating to that particular foreign operation shall be recognized in the consolidated statement of income.

#### Common Stock

Common stocks are classified as equity and are recorded at par. Proceeds in excess of par value are recorded as 'Additional paid-in capital' in the consolidated statement of financial position. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

#### Retained Earnings

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

#### Other Comprehensive Income

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

#### Dividends on Common Shares

Dividends on common shares are recognized as a liability and deducted from equity when approved by the BOD of the Parent Company in the case of cash dividends, and the BOD and shareholders of the Parent Company in the case of stock dividends.

#### Earnings Per Share (EPS)

Basic EPS is computed by dividing consolidated net income applicable to common stock (consolidated net income less dividends on preferred stock) by the weighted average number of common shares issued and outstanding during the year, adjusted for any subsequent stock dividends declared.

Diluted EPS amounts are calculated by dividing the consolidated net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

#### Segment Reporting

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business segments is presented in Note 6 to the consolidated financial statements.

#### Events after the Reporting Period

Any post year-end event up to the date of approval of the BOD of the consolidated financial statements that provides additional information about the Group's position at the statement of financial position date (adjusting event) is reflected in the consolidated financial statements. Any post year-end event that is not an adjusting event is disclosed in the notes to the consolidated financial statements, when material.

#### New Accounting Standards, Interpretations, and Amendments to Existing Standards Effective Subsequent to September 30, 2013

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

#### *Effective in 2013 for adoption in fiscal year ending September 30, 2014*

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

These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32.

The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

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

The amendments to PFRS 7 are to be retrospectively applied and are effective for annual periods beginning on or after January 1, 2013. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

- **PFRS 10, *Consolidated Financial Statements***  
PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addresses the accounting for consolidated financial statements. It also includes issues raised in SIC 12, *Consolidation for Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by the parent, compared with the requirements of PAS 2. The standard becomes effective for annual periods beginning on or after January 1, 2013.
- **PFRS 11, *Joint Arrangements***  
PFRS 11 replaces PAS 31, *Interests in Joint Ventures*, and SIC 13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using equity method. The application of this new standard will not have an impact the financial position of the Group. The standard becomes effective for annual period beginning on or after January 1, 2013.
- **PFRS 12, *Disclosure of Interest in Other Entities***  
PFRS 12 includes all of the disclosures related to consolidated financial statements that were previously in PAS 27, as well as all the disclosures that were previously in PAS 31, and PAS 28, *Investment in Associates*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required.

The standard becomes effective for annual periods beginning on or after January 1, 2013. The adoption of PFRS 12 will affect disclosures only and have no impact on the Group's financial position or performance.

- **PFRS 13, *Fair Value Measurement***  
PFRS 13 establishes a single source of guidance under PFRSs for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. This standard should be applied prospectively as of the beginning of the annual period in which it is

initially applied. Its disclosure requirements need not be applied in comparative information provided for periods before initial application of PFRS 13.

The standard becomes effective for annual periods beginning on or after January 1, 2013. The Group does not anticipate that the adoption of this standard will have a significant impact on its financial position and performance.

- *PAS 27, Separate Financial Statements* (as revised in 2011)  
As a consequence of the new PFRS 10 and 12, what remains of PAS 27 is limited to accounting for subsidiaries, jointly-controlled entities and associates in separate financial statements. The adoption of the amended PAS 27 will not have significant impact on the separate financial statements of the entities within the Group. The amendment becomes effective for annual periods beginning on or after January 1, 2013.
- *PAS 28, Investments in Associates and Joint Ventures* (as revised in 2011)  
As a consequence of the new PFRS 10 and 12, PAS 28 has been renamed *PAS 28, Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after January 1, 2013.
- *Philippine Interpretation IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine*  
This interpretation applies to waste removal costs (“stripping costs”) that are incurred in surface mining activity during the production phase of the mine (“production stripping costs”). If the benefit from the stripping activity will be realized in the current period, an entity is required to account for the stripping activity costs as part of the cost of inventory. When the benefit is the improved access to ore, the entity should recognize these costs as a non-current asset, only if certain criteria are met (“stripping activity asset”). The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset. After initial recognition, the stripping activity asset is carried at its cost or revalued amount less depreciation or amortization and less impairment losses, in the same way as the existing asset of which it is a part.

The Group expects that this interpretation will not have any impact on its financial position or performance. This interpretation becomes effective for annual periods beginning on or after January 1, 2013.

Effective in 2014 for adoption in fiscal year ending September 30, 2015

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

Effective in 2015 for adoption in fiscal year ending September 30, 2016

- *PFRS 9, Financial Instruments*  
PFRS 9, as issued, reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its entirety.
  - a. All financial assets to be measured at fair value at initial recognition;

- b. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss;
- c. All equity financial assets are measured at fair value either through other comprehensive income or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.
- d. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

PFRS 9 is effective for annual periods beginning on or after January 1, 2015.

#### *Improvements to PFRS*

The omnibus amendments to PFRS issued in 2009, 2010 and 2011, contain non-urgent but necessary amendments to PFRSs. The amendments are effective for annual periods beginning on or after January 1, 2013 and are applied retrospectively. Earlier application is permitted.

- *PFRS 1, First-time Adoption of PFRS - Borrowing Costs*  
The amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, *Borrowing Costs*. The amendment does not apply to the Group as it is not a first-time adopter of PFRS.
- *PAS 1, Presentation of Financial Statements - Clarification of the Requirements for Comparative Information*  
The amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required.  
  
The amendments affect disclosures only and have no impact on the Group's financial position or performance.
- *PAS 16, Property, Plant and Equipment - Classification of Servicing Equipment*  
The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and

equipment and should be recognized as inventory if otherwise. The amendment will not have any significant impact on the Group's financial position or performance.

- *PAS 32, Financial Instruments: Presentation - Tax Effect of Distribution to Holders of Equity Instruments*  
The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*. The Group expects that this amendment will not have any impact on its financial position or performance.
- *PAS 34, Interim Financial Reporting - Interim Financial Reporting and Segment Information for Total Assets and Liabilities*  
The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment affects disclosures only and has no impact on the Group's financial position or performance.

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### 3. Significant Accounting Judgments and Estimates

The preparation of the consolidated financial statements in compliance with PFRS requires the management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the consolidated financial statements as they become reasonably determinable.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### Judgments

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

#### *Classification of financial instruments*

The Group exercises judgment in classifying a financial instrument, or its component parts, on initial recognition as either a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement 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 statement of financial position.

In addition, the Group classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

#### *Determination of fair values of financial instruments*

The Group carries certain financial assets and liabilities at fair value, which requires extensive use of accounting judgment and estimates. While significant components of fair value measurement were

determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates, volatility rates), the amount of changes in fair value would differ if the Group utilized different valuation methodologies and assumptions. Any changes in the fair value of these financial assets and liabilities would affect profit and loss and equity.

Where the fair values of certain financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable market data where possible, but where this is not feasible, estimates are used in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer-dated derivatives. The fair values of the Group's derivative financial instruments are based from quotes obtained from counterparties.

#### *Classification of leases*

Management exercises judgment in determining whether substantially all the significant risks and rewards of ownership of the leased assets are transferred to the Group. Lease contracts, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased items, are capitalized. Otherwise, they are considered as operating leases.

The Group has entered into commercial property leases on its investment property portfolio. These leases do not provide for an option to purchase or transfer ownership of the property at the end of the lease and the related lease terms do not approximate the EUL of the assets being leased. The Group has determined that it retains all significant risks and rewards of ownership of these properties which are leased out on operating leases.

Some of the Group's subsidiaries were granted land usage rights from private entities. The land usage right represents the prepaid amount of land lease payments. The right is currently being amortized by the Group on a straight-line basis over the term of the right.

#### *Distinction between investment properties and owner-occupied properties*

The Group determines whether a property qualifies as an investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to the other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as an investment property. The Group considers each property separately in making its judgment.

#### *Determination of functional currency*

PAS 21, *The Effects of Changes in Foreign Exchange Rates* requires management to use its judgment to determine the entity's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the entity. In making this judgment, the Group considers the following:

- a. the currency that mainly influences sales prices for financial instruments and services (this will often be the currency in which sales prices for its financial instruments and services are denominated and settled);
- b. the currency in which funds from financing activities are generated; and
- c. the currency in which receipts from operating activities are usually retained.

In the case of an intermediate holding company or finance subsidiary, the principal consideration of management is whether it is an extension of the parent and performing the functions of the parent - i.e., whether its role is simply to hold the investment in, or provide finance to, the foreign operation on behalf of the parent company or whether its functions are essentially an extension of a local operation (e.g., performing selling, payroll or similar activities for that operation) or indeed it is undertaking activities on its own account. In the former case, the functional currency of the entity is the same with that of the parent; while in the latter case, the functional currency of the entity would be assessed separately.

#### *Assets held for sale*

The Group classifies a subsidiary as a disposal group held for sale if it meets the following conditions at the reporting date:

- The entity is available for immediate sale and can be sold in its current condition;
- An active program to locate a buyer and complete the plan sale has been initiated; and
- The entity is to be genuinely sold, not abandoned.

#### *Contingencies*

The Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the defense in these matters and is based upon an analysis of potential results. The Group currently does not believe these proceedings will have a material effect on the Group's financial position.

It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings.

#### Estimates

The key assumptions concerning the future and other sources of estimation uncertainty at the financial position date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### *Impairment of AFS investments*

##### *Debt investments*

The Group classifies certain financial assets as AFS investments and recognizes movements in the fair value in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether such can be considered as an impairment loss that should be recognized in the profit or loss in the consolidated statement of comprehensive income.

##### *Equity investments*

The Group treats AFS equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Group treats 'significant' generally as 20.00% or more and 'prolonged' as 12 months or longer for quoted equity securities. In addition, the Group evaluates other factors, such as normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

#### *Estimation of allowance for impairment losses on receivables*

The Group maintains allowances for impairment losses on its trade and other receivables at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by the management on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of relationship with the customer, the customer's payment behavior and known market factors. The Group reviews the age and status of

receivables, and identifies accounts that are to be provided with allowances on a continuous basis. The Group provides full allowance for trade and other receivables that it deems uncollectible.

The Group reviews its finance receivables at each statement of financial position date to assess whether an impairment loss should be recorded in the profit or loss in the consolidated statement of comprehensive income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowance against individually significant loans and receivables, the Group also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted.

This collective allowance is based on any deterioration in the internal rating of the loan or investment since it was granted or acquired. These internal ratings take into consideration factors such as any deterioration in risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

The amount and timing of recorded expenses for any period would differ if the Group made different judgments or utilized different estimates. An increase in the allowance for impairment losses on trade and other receivables would increase recorded operating expenses and decrease current assets.

#### *Determination of NRV of inventories*

The Group, in determining the NRV, considers any adjustment necessary for obsolescence, which is generally providing 100.00% allowance for nonmoving items for more than one year. The Group adjusts the cost of inventory to the recoverable value at a level considered adequate to reflect market decline in the value of the recorded inventories.

The Group reviews the classification of the inventories and generally provides adjustments for recoverable values of new, actively sold and slow-moving inventories by reference to prevailing values of the same inventories in the market.

The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized. An increase in inventory obsolescence and market decline would increase recorded operating expenses and decrease current assets.

#### *EUL of property, plant and equipment and investment properties*

The Group estimates the useful lives of its property, plant and equipment and investment properties based on the period over which the assets are expected to be available for use. The EUL of property, plant and equipment and investment properties are reviewed at least annually and are updated if expectations differ from previous estimates due to physical wear and tear and technical or commercial obsolescence on the use of these assets. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in factors mentioned above. A reduction in the EUL of property, plant and equipment and investment properties would increase depreciation expense and decrease noncurrent assets.

#### *Fair values less estimated costs to sell of biological assets*

The fair values of swine are determined based on current market prices of livestock of similar age, breed and genetic merit. Costs to sell include commissions to brokers and dealers, nonrefundable transfer taxes and duties. Costs to sell exclude transport and other costs necessary to get the biological assets to the market. The fair values are reviewed and updated if expectations differ from

previous estimates due to changes brought by both physical change and price changes in the market. It is possible that future results of operations could be materially affected by changes in these estimates brought about by the changes in factors mentioned.

#### *Impairment of nonfinancial assets*

The Group assesses the impairment of its nonfinancial assets (i.e., property, plant and equipment, investment properties, investment in a joint venture, biological assets at cost, goodwill and other intangible assets) whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

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

- significant or prolonged decline in the fair value of the asset;
- market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating the asset's value in use and decrease the asset's recoverable amount materially;
- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

The Group determines an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount has been determined based on value in use calculations. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset base of the cash-generating unit being tested.

The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

In the case of goodwill and intangible assets with indefinite lives, at a minimum, such assets are subject to an annual impairment test and more frequently whenever there is an indication that such asset may be impaired. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and to choose a suitable discount rate in order to calculate the present value of those cash flows.

#### *Estimation of pension and other benefits costs*

The cost of defined benefit pension plans and other post employment benefits as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements. Future salary increases and pension

increases are based on expected future inflation rates for the specific country.

*Recognition of deferred tax assets*

The Group reviews the carrying amounts of its deferred income taxes at each statement of financial position date and reduces the deferred tax assets 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. However, there is no assurance that the Group will generate sufficient taxable income to allow all or part of the deferred tax assets to be utilized.

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#### **4. Financial Risk Management Objectives and Policies**

The Group's principal financial instruments, other than derivatives, comprise cash and cash equivalents, financial assets at FVPL, AFS investments, and interest-bearing loans and other borrowings. The main purpose of these financial instruments is to finance the Group's operations and related capital expenditures. The Group has various other financial assets and financial liabilities, such as trade receivables and payables which arise directly from its operations. One of the Group's subsidiary is a counterparty to derivative contracts. These derivatives are entered into as a means of reducing or managing their respective foreign exchange and interest rate exposures, as well as for trading purposes.

The BOD of the Parent Company and its subsidiaries review and approve policies for managing each of these risks and they are summarized below, together with the related risk management structure.

Risk Management Structure

The Group's risk management structure is closely aligned with that of the ultimate parent company. The BOD of the Parent Company and the respective BOD of each subsidiary are ultimately responsible for the oversight of the Group's risk management processes that involve identifying, measuring, analyzing, monitoring and controlling risks.

The risk management framework encompasses environmental scanning, the identification and assessment of business risks, development of risk management strategies, design and implementation of risk management capabilities and appropriate responses, monitoring risks and risk management performance, and identification of areas and opportunities for improvement in the risk management process.

Each BOD has created the board-level Audit Committee (AC) to spearhead the managing and monitoring of risks.

*AC*

The AC shall assist the Group's BOD in its fiduciary responsibility for the over-all effectiveness of risk management systems, and both the internal and external audit functions of the Group. Furthermore, it is also the AC's purpose to lead in the general evaluation and to provide assistance in the continuous improvements of risk management, control and governance processes.

The AC also aims to ensure that:

- a. financial reports comply with established internal policies and procedures, pertinent accounting and auditing standards and other regulatory requirements;
- b. risks are properly identified, evaluated and managed, specifically in the areas of managing credit, market, liquidity, operational, legal and other risks, and crisis management;
- c. audit activities of internal and external auditors are done based on plan, and deviations are explained through the performance of direct interface functions with the internal and external

- auditors; and
- d. the Group's BOD is properly assisted in the development of policies that would enhance the risk management and control systems.

#### *Enterprise Risk Management Group (ERMG)*

The ERMG was created to be primarily responsible for the execution of the enterprise risk management framework. The ERMG's main concerns include:

- a. recommending risk policies, strategies, principles, framework and limits;
- b. managing fundamental risk issues and monitoring of relevant risk decisions;
- c. providing support to management in implementing the risk policies and strategies; and
- d. developing a risk awareness program.

Compliance with the principles of good corporate governance is also one (1) of the primary objectives of the BOD. To assist the BOD in achieving this purpose, the BOD has designated a Compliance Officer who shall be responsible for monitoring the actual compliance with the provisions and requirements of the Corporate Governance Manual and other requirements on good corporate governance, identifying and monitoring control compliance risks, determining violations, and recommending penalties on such infringements for further review and approval of the BOD, among others.

#### *Day-to-day risk management functions*

At the business unit or company level, the day-to-day risk management functions are handled by four (4) different groups, namely:

1. Risk-taking personnel. This group includes line personnel who initiate and are directly accountable for all risks taken.
2. Risk control and compliance. This group includes middle management personnel who perform the day-to-day compliance check to approved risk policies and risk mitigation decisions.
3. Support. This group includes back office personnel who support the line personnel.
4. Risk management. This group pertains to the business unit's Management Committee which makes risk mitigating decisions within the enterprise-wide risk management framework.

#### Risk Management Policies

The main risks arising from the use of financial instruments are credit risk, liquidity risk and market risks such as foreign currency risk, equity price risk and interest rate risk. The Group's policies for managing the aforementioned risks are summarized below.

#### *Credit risk*

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group trades only with recognized and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The Credit and Collection Department of the Group continuously provides credit notification and implements various credit actions, depending on assessed risks, to minimize credit exposure. Receivable balances of trade customers are being monitored on a regular basis and appropriate credit treatments are executed for overdue accounts. Likewise, other receivable balances are also being monitored and subjected to appropriate actions to manage credit risk.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, financial assets at FVPL, AFS investments and certain derivative 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.

*Liquidity risk*

Liquidity risk is the risk of not being able to meet funding obligation such as the repayment of liabilities or payment of asset purchases as they fall due. The Group's liquidity management involves maintaining funding capacity to finance capital expenditures and service maturing debts, and to accommodate any fluctuations in asset and liability levels due to changes in the Group's business operations or unanticipated events created by customer behavior or capital market conditions. The Group maintains a level of cash and cash equivalents deemed sufficient to finance its operations. It also maintains a portfolio of highly marketable and diverse financial assets that assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that it can access to meet liquidity needs. As part of its liquidity risk management, the Group regularly evaluates its projected and actual cash flows. It also continuously assesses conditions in the financial markets for opportunities to pursue fund raising activities. Fund raising activities may include obtaining bank loans and capital market issues both onshore and offshore.

*Market risk*

Market risk is the risk of loss to future earnings, to fair value or future cash flows of a financial instrument as a result of changes in its price, in turn caused by changes in interest rates, foreign currency exchange rates, equity prices and other market factors.

*Foreign currency risk*

Foreign currency risk arises on financial instruments that are denominated in a foreign currency other than the functional currency in which they are measured.

The Group has transactional currency exposures. Such exposures arise from sales and purchases in currencies other than the entities' functional currency.

*Equity price risk*

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity indices and the value of individual stocks.

*Interest rate risk*

The Group's exposure to interest rates relates primarily to the Group's short-term and long-term debt obligations. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt.

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## 5. Fair Value Measurement

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

*Cash and cash equivalents, receivables (except amounts due from and due to related parties), accounts payable and other accrued liabilities, short-term debt, and trust receipts and acceptances payable*

Carrying amounts approximate their fair values due to the relatively short-term maturities of these instruments.

*Amounts due from and due to related parties*

Carrying amounts of due from and due to related parties which are payable and due on demand approximate their fair values.

*Financial assets at FVPL and AFS investments*

Fair values of debt securities are generally based upon quoted market prices. If the market prices are not readily available, fair values are estimated using either values obtained from independent parties offering pricing services or adjusted quoted market prices of comparable investments or using the discounted cash flow methodology. Fair values of quoted equity securities are based on quoted prices published in markets.

*Derivative financial instruments*

The fair values of currency forwards and currency options are based on quotes obtained from counterparties.

*Long-term debt*

The fair value is determined using the discounted cash flow methodology, with reference to the Group's current incremental lending rates for similar types of loans.

### Fair Value Hierarchy

The Group uses the following hierarchy in determining and disclosing the fair value of financial instruments by valuation technique:

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

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## 6. Business Segment Information

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

- The branded consumer food products segment manufactures and distributes a diverse mix of salty snacks, chocolates, candies, biscuits, bakery products, beverages, instant noodles, and pasta and tomato-based products. This segment also includes the packaging division, which manufactures BOPP films primarily used in packaging; and its subsidiary, which manufactures PET bottles and flexible packaging materials for the packaging requirements of various branded food products. Its revenues are in their peak during the opening of classes in June and Christmas season.

- The agro-industrial products segment engages in hog and poultry farming, manufacturing and distribution of animal feeds, glucose and soya products, and production and distribution of animal health products. Its peak season is during summer and before Christmas season.
- The commodity food products segment engages in sugar milling and refining, and flour milling and pasta manufacturing. The peak season for sugar is during its crop season, which normally starts in November and ends in April while flour and pasta's peak season is before and during the Christmas season.
- The corporate business segment engages in bonds and securities investment and fund sourcing activities.

No operating segments have been aggregated to form the above reportable operating business segments.

Management monitors the operating results of business segments separately for the purpose of making decisions about resource allocation and performance assessment. The measure presented to manage segment performance is the segment operating income (loss). Segment operating income (loss) is based on the same accounting policies as consolidated operating income (loss) except that intersegment revenues are eliminated only at the consolidation level. Group financing (including finance costs and revenues), market valuation gain and loss, foreign exchange losses, other revenues and expenses and income taxes are managed on a group basis and are not allocated to operating segments. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

The Group's business segment information follows:

	Sale of Goods and Services		Segment Result	
	For the six months ended March 31			
	2014	2013	2014	2013
Branded Consumer Foods Group	<b>₱37,840,265</b>	₱31,506,156	<b>₱5,296,261</b>	₱3,485,671
Agro-Industrial Group	<b>4,094,456</b>	3,777,608	<b>516,650</b>	377,895
Commodity Foods Group	<b>3,808,773</b>	5,032,259	<b>1,715,071</b>	1,640,757
Corporate Businesses	–	–	<b>(519,040)</b>	(575,744)
	<b>₱45,743,494</b>	₱40,316,023	<b>₱7,008,942</b>	₱4,928,579

	Total Assets		Total Liabilities	
	For the six months ended March 31			
	2014	2013	2014	2013
Branded Consumer Foods Group	<b>₱41,227,963</b>	₱36,471,495	<b>₱9,591,381</b>	₱7,222,722
Agro-Industrial Group	<b>5,555,807</b>	5,634,744	<b>2,041,361</b>	1,244,436
Commodity Foods Group	<b>11,606,806</b>	10,322,849	<b>4,571,577</b>	1,494,476
Corporate Businesses	<b>10,576,308</b>	10,484,396	<b>2,247,774</b>	1,571,577
	<b>₱68,966,884</b>	₱62,913,484	<b>₱18,452,093</b>	₱11,533,211

#### Segment Results

Segment results pertain to the net income (loss) of each of the operating segments excluding the amounts of market valuation gains and losses on financial assets at FVPL, foreign exchange losses and other revenues and expenses which are not allocated to operating segments.

#### Segment Assets

Segment assets are resources owned by each of the operating segments excluding significant inter-segment transactions.

Segment Liabilities

Segment liabilities are obligations incurred by each of the operating segments excluding significant inter-segment transactions. The Group also reports to the chief operating decision maker the breakdown of the short-term and long-term debt of each of the operating segments.

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**7. Cash and Cash Equivalents**

This account consists of:

	<b>Unaudited</b>	Audited
	<b>March 31, 2014</b>	September 30, 2013
Cash on hand	<b>₱53,060</b>	₱45,957
Cash in banks	<b>2,614,029</b>	2,601,012
Short-term investments	<b>7,880,418</b>	9,386,340
	<b>₱10,547,507</b>	₱12,033,309

Cash in banks earns interest at the respective bank deposit rates. Short-term investments represent money market placements that are made for varying periods depending on the immediate cash requirements of the Group, and earn interest ranging from 0.23% to 1.94% and 1.4% to 2.1% as of March 31, 2014 and September 30, 2013, respectively.

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**8. Financial Assets at Fair Value Through Profit or Loss**

These investments consist of equity securities which are held for trading by the Group.

Net market valuation gain (loss) recognized on these securities amounted to ₱7.8 million market valuation loss and ₱506.1 million market valuation gain for the first half ended March 31, 2014 and 2013, respectively.

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**9. Receivables**

This account consists of:

	<b>Unaudited</b>	Audited
	<b>March 31, 2014</b>	September 30, 2013
Trade receivables	<b>₱5,575,203</b>	₱5,385,832
Due from related parties	<b>1,836,743</b>	1,812,242
Advances to officers, employees and suppliers	<b>1,079,098</b>	947,001
Interest receivable	<b>6,332</b>	5,039
Others	<b>285,170</b>	767,645
	<b>8,782,546</b>	8,917,759
Less allowance for impairment losses	<b>395,429</b>	395,341
	<b>₱8,387,117</b>	₱8,522,418

The aging analysis of the Group's receivables follows:

	Neither past due nor impaired	Past due but not impaired		Past due and impaired	Unaudited March 31, 2014
		Less than 90 days	Over 90 days		
Trade receivables	<b>₱4,819,946</b>	<b>₱280,959</b>	<b>₱267,598</b>	<b>₱206,700</b>	<b>₱5,575,203</b>
Due from related parties	<b>1,836,743</b>	–	–	–	<b>1,836,743</b>
Advances to suppliers and others	<b>1,016,360</b>	<b>14,038</b>	<b>29,054</b>	<b>19,646</b>	<b>1,079,098</b>
Interest receivable	<b>6,332</b>	–	–	–	<b>6,332</b>
Others	<b>86,587</b>	<b>5,652</b>	<b>23,848</b>	<b>169,083</b>	<b>285,170</b>
	<b>₱7,765,968</b>	<b>₱300,649</b>	<b>₱320,500</b>	<b>₱395,429</b>	<b>₱8,782,546</b>

	Neither past due nor impaired	Past due but not impaired		Past due and impaired	Audited September 30, 2013
		Less than 90 days	Over 90 days		
Trade receivables	₱4,650,004	₱271,053	₱258,163	₱206,612	₱5,385,832
Due from related parties	1,812,242	–	–	–	1,812,242
Advances to suppliers and others	889,636	12,288	25,431	19,646	947,001
Interest receivable	5,039	–	–	–	5,039
Others	446,456	29,143	122,963	169,083	767,645
	₱7,803,377	₱312,484	₱406,557	₱395,341	₱8,917,759

## 10. Inventories

This account consists of:

	Unaudited March 31, 2014	Audited September 30, 2013
At cost:		
Raw materials	<b>₱4,978,375</b>	₱5,503,791
Finished goods	<b>3,611,634</b>	2,145,520
	<b>8,590,009</b>	7,649,311
At NRV:		
Goods in-process	<b>633,272</b>	506,119
Containers and packaging materials	<b>1,547,299</b>	1,510,714
Spare parts and supplies	<b>1,508,184</b>	1,321,077
	<b>3,688,755</b>	3,337,910
	<b>₱12,278,764</b>	₱10,987,221

Under the terms of the agreements covering liabilities under trust receipts totaling ₱5.1 billion and ₱2.4 billion as of March 31, 2014 and September 30, 2013, respectively, certain inventories have been released to the Group in trust for the banks. The Parent Company is accountable to these banks for the trusted merchandise or their sales proceeds.

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## 11. Other Current Assets

This account consists of:

	<b>Unaudited</b> <b>March 31, 2014</b>	Audited September 30, 2013
Input value-added tax	<b>₱237,580</b>	₱194,291
Prepaid expenses	<b>179,638</b>	173,812
	<b>₱417,218</b>	<b>₱368,103</b>

Prepaid expenses account consists of:

	<b>Unaudited</b> <b>March 31, 2014</b>	Audited September 30, 2013
Prepaid insurance	<b>₱59,045</b>	₱77,905
Prepaid rent	<b>19,290</b>	38,128
Prepaid advertising	<b>39,263</b>	30,122
Prepaid taxes	<b>23,390</b>	13,519
Others	<b>38,650</b>	14,138
	<b>₱179,638</b>	<b>₱173,812</b>

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## 12. Property, Plant and Equipment

This account consists of:

	<b>Unaudited</b> <b>March 31, 2014</b>	Audited September 30, 2013
<b>Acquisition Costs</b>		
Land Improvements	<b>₱1,544,510</b>	₱1,501,394
Building and Improvements	<b>11,649,473</b>	11,121,881
Machinery and Equipment	<b>43,556,287</b>	41,601,336
Transportation Equipment	<b>2,239,467</b>	2,196,775
Furniture, Fixtures and Equipment	<b>2,283,489</b>	2,172,567
	<b>61,273,226</b>	58,593,953
<b>Accumulated Depreciation, Amortization and Impairment Losses</b>	<b>37,170,980</b>	35,214,683
<b>Net Book Value</b>	<b>24,102,246</b>	23,379,270
Land	<b>2,632,335</b>	2,595,932
Equipment In-transit	<b>1,563,151</b>	1,145,219
Construction In-progress	<b>4,388,979</b>	3,059,979
	<b>₱32,686,711</b>	<b>₱30,180,400</b>

### 13. Intangible Assets

Movements in this account follow:

	<b>Unaudited</b> <b>March 31, 2014</b>	Audited September 30, 2013
<b>Cost</b>		
Balance at beginning and end of period	<b>₱1,723,292</b>	₱1,723,292
<b>Accumulated Amortization and Impairment Losses</b>		
Balance at beginning and end of period	<b>449,664</b>	449,664
<b>Net Book Value</b>	<b>₱1,273,628</b>	₱1,273,628

Intangible assets consist of goodwill, trademark and product formulation.

### 14. Investment in a Joint Venture

This account consists of:

	<b>Unaudited</b> <b>March 31, 2014</b>	Audited September 30, 2013
<b>Acquisition Cost</b>		
Balance at beginning and end of year	<b>₱1,250</b>	₱1,250
<b>Accumulated Equity in Net Earnings</b>		
Balance at beginning of year	<b>84,134</b>	94,889
Equity in net income during the period	<b>19,194</b>	19,245
Dividends received	-	(30,000)
Balance at end of period	<b>103,328</b>	84,134
<b>Net Book Value</b>	<b>₱104,578</b>	₱85,384

The Parent Company has an equity interest in Hunt-Universal Robina Corporation (HURC), a domestic joint venture. HURC manufactures and distributes food products under the "Hunt's" brand name, which is under exclusive license to HURC in the Philippines.

### 15. Investment Properties

Movements in this account follow:

	<b>Unaudited</b> <b>March 31, 2014</b>	Audited September 30, 2013
<b>Cost</b>		
Balance at beginning and end of year	<b>₱107,947</b>	₱107,947
<b>Accumulated Depreciation</b>		
Balance at beginning of year	<b>47,113</b>	43,456
Depreciation	<b>1,829</b>	3,657
Balance at end of period	<b>48,942</b>	47,113
<b>Net Book Value</b>	<b>₱59,005</b>	₱60,834

The investment properties consist of building and plant which are made available for lease to certain related parties.

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**16. Other Noncurrent Assets**

This account consists of:

	<b>Unaudited</b>	Audited
	<b>March 31, 2014</b>	September 30, 2013
Input value-added tax	<b>₱256,097</b>	₱151,343
Deposits	<b>249,909</b>	282,471
Others	<b>11,856</b>	41,033
	<b>₱517,862</b>	₱474,847

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**17. Accounts Payable and Other Accrued Liabilities**

This account consists of:

	<b>Unaudited</b>	Audited
	<b>March 31, 2014</b>	September 30, 2013
Trade payables	<b>₱6,241,674</b>	₱6,554,241
Accrued expenses	<b>3,245,252</b>	2,247,821
Due to related parties	<b>71,073</b>	74,913
Customers' deposits	<b>240,983</b>	218,393
Advances from stockholders	<b>233,259</b>	229,986
Others	<b>184,221</b>	188,161
	<b>₱10,216,462</b>	₱9,513,515

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As of March 31, 2014 and September 30, 2013, others include withholding taxes payable amounting to ₱99.6 million and ₱113.6 million, respectively. The accrued expenses account consists of:

	<b>Unaudited</b>	Audited
	<b>March 31, 2014</b>	September 30, 2013
Advertising and promotions	<b>₱2,664,076</b>	₱1,839,496
Utilities	<b>166,286</b>	152,606
Freight and handling costs	<b>241,704</b>	136,012
Contracted services	<b>105,037</b>	42,052
Others	<b>68,149</b>	77,655
	<b>₱3,245,252</b>	₱2,247,821

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**18. Short-term Debt**

This account consists of loans in foreign currencies with interest rates ranging from 2.62% to 2.85% per annum in 2014 and 2.85% to 4.80% per annum in 2013. Interest is based on prevailing market rates.

## 19. Equity

The details of the Parent Company's common stock follow:

	<b>March 31, 2014</b>	September 30, 2013
Authorized shares	<b>2,998,000,000</b>	2,998,000,000
Par value per share	<b>₱1.00</b>	₱1.00
Issued shares:		
Balance at beginning and end of period	<b>2,227,638,933</b>	2,227,638,933
Outstanding shares	<b>2,181,501,933</b>	2,181,501,933

### Cumulative Redeemable Preferred Shares

The Group's authorized preferred shares of stock are 12% cumulative, nonparticipating, and nonvoting. In case of dissolution and liquidation of the Parent Company, the holders of the preferred shares shall be entitled to be paid an amount equal to the par value of the shares or ratably insofar as the assets of the Parent Company may warrant, plus accrued and unpaid dividends thereon, if any, before the holders of the common shares of stock can be paid their liquidating dividends. The authorized preferred stock is 2,000,000 shares at par value of ₱1.0 per share. There have been no issuances of preferred stock as of March 31, 2014 and September 30, 2013.

### Retained Earnings

#### *Dividends*

On March 24, 2014, the Company paid cash dividend of ₱3.0 per share to all stockholders of record as of February 26, 2014.

The Group intends to maintain an annual cash dividend payment ratio of 50.0% of the Group's consolidated net income from the preceding fiscal year, subject to the requirements of the applicable laws and regulations and the absence of circumstances which may restrict the payment of such dividends. The BOD may, at any time, modify such dividend payment ratio.

### Treasury Shares

On November 13, 2007, the Group's BOD approved the creation and implementation of a share buy-back program allotting up to ₱2.5 billion to reacquire a portion of the Company's issued and outstanding common shares, representing approximately 7.63% of current market capitalization.

On January 12, 2011, the Group's BOD approved the extension of the Group's buy-back program, allotting up to another ₱2.5 billion to reacquire portion of the Parent Company's issued and outstanding common shares. The extension of the share buy-back program shall have the same terms and conditions as the share buy-back program approved by the BOD on November 13, 2007.

### Equity Reserve

In August 2012, the Parent Company has acquired 23.0 million common shares of URCICL from International Horizons Investment Ltd for ₱7.2 billion. The acquisition of shares represents the remaining 23.00% interest in URCICL. As a result of the acquisition, the Parent Company now holds 100.00% interest in URCICL. The Group recognized equity reserve from the acquisition amounting to about ₱5.6 billion included in "Equity Reserve" in the 2012 consolidated statements of changes in equity. The equity reserve from the acquisition will only be recycled in the consolidated statement of income in the event that the Group will lose its control over URCICL.

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## 20. Earnings Per Share

The following reflects the income and share data used in the basic/dilutive EPS computations:

	<b>Six months ended March 31</b>	
	<b>2014</b>	2013
Net income attributable to equity holders of the parent	<b>₱6,165,098</b>	₱5,406,689
Weighted average number of common shares	<b>2,181,502</b>	2,181,502
Basic/dilutive EPS	<b>₱2.83</b>	₱2.48

There were no potential dilutive shares for the first half of fiscal 2014 and 2013.

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## 21. Commitments and Contingencies

The Group has various contingent liabilities arising in the ordinary conduct of business which are either pending decision by the courts, under arbitration or being contested, the outcome of which are not presently determinable. In the opinion of management and its legal counsel, the eventual liability under these lawsuits or claims, if any, will not have a material or adverse effect on the Group's financial position and results of operations. The information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed on the grounds that it can be expected to prejudice the outcome of these lawsuits, claims, arbitration and assessments.