SEC Number **CS200319138**

File Number

**ALLIANCE SELECT FOODS INTERNATIONAL, INC.**
**AND ITS SUBSIDIARIES**

(Company's Full Name)

**Suite 3104 A West Tower PSEC Exchange Rd.**
**Ortigas Business District, Pasig City**

(Company's Address)

**632 7747-3798**

(Telephone Number)

**December 31**

(Calendar Year Ending)
(month & day)

**SEC FORM 17 A**

(Form Type)

(Amendment Designation if applicable)

**For the Fiscal Year December 31, 2019**

(Period Ended Date)

(Secondary License Type and File Number

**SECURITIES AND EXCHANGE COMMISSION**

SEC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 17
OF THE SECURITIES REGULATION CODE AND SECTION 141
OF THE CORPORATION CODE OF THE PHILIPPINES

1. For the fiscal year ended **December 31, 2019**

2. Commission identification number **CS200319138**

3. BIR Tax Identification No. **227-409-243-000**

4. Exact name of issuer as specified in its charter **Alliance Select Foods International, Inc.**

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

6. Industry Classification Code: (SEC Use Only)

7. **Suite 3104 A West Tower PSEC Exchange Rd. Ortigas Business District, Pasig City**
   Address of issuer's principal office

   **1605**
   Postal Code

8. **632 7747 - 3798**
   Issuer's telephone number, including area code

9. **1206 East Tower PSEC Exchange Rd. Ortigas Center Pasig City 1605**
   Former name, former address and former fiscal year, if changed since last report

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

| Title of each Class | Number of shares of common stock outstanding and amount of debt outstanding |
|---|---|
| **Common shares, P0.50 par value** | **2,499,712,463 shares** |

11. Are any or all of the securities listed on a Stock Exchange?

    Yes [ / ] No [ ]

    If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

    **The Phil. Stock Exchange - Common shares**

12. Indicate by check mark whether the registrant:

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

    Yes [ / ]   No [ ]

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

    Yes [ / ] No [ ]

# Part I – BUSINESS AND GENERAL INFORMATION

## Item 1 – BUSINESS

### BACKGROUND

Alliance Select Foods International, Inc. (ASFII or the "Parent Company" or the "Company") is a publicly listed corporation under Section 17.2 of the Securities Regulation Code (SRC). ASFII was registered with the Philippine Securities and Exchange Commission (SEC) on September 1, 2003 as Alliance Tuna International, Inc. It started commercial operations in 2004 to engage in tuna processing, canning, and the export of canned tuna products from General Santos City, Mindanao, Philippines. On November 8, 2006, the Company's shares were listed on the Philippine Stock Exchange through an initial public offering. In July 2010, the Company was renamed as "Alliance Select Foods International, Inc."

The Parent Company's key business activity is the processing, canning, and export of tuna. It exports its products to Europe, North and South America, Asia, Africa, and the Middle East.

In May 2004, the Company set up a marketing representative office in Bangkok, Thailand, to tap the network of buyers and brokers who use Thailand as a base.

In September 2005, the Company acquired a 40% stake in FDCP, a can manufacturing company.

In May 2008, PT IAFI was established to acquire the assets of an Indonesian tuna cannery located in Bitung, in the island of North Sulawesi. The Parent Company owns 99.98% of PT IAFI. A complete renovation of the factory and upgrade of capacity to 90 metric tons per day was undertaken. On October 18, 2019, PT IAFI changed its core business operations to export trading, and sold its fixed assets in North Sulawesi.

PT IAFI set up PT Van de Zee (PT VDZ), a fishing company in Indonesia in May 2012 with an initial stake of 80%. In 2014, a new law in Indonesia required that domestic ownership in local entities be increased to at least 51%. Currently, PT IAFI owns 49% of PT VDZ. Due to subsequent changes in Indonesian fishing regulations restricting foreign commercial fishing, PT VDZ is currently not in operation.

As part of the Parent Company's product diversification strategy, it invested in a New Zealand based processor of smoked salmon in January 2009. The initial investment of a 39.00% stake in PFNZ was later increased to 50% plus 1 share. PFNZ was engaged in the business of processing, manufacturing, and distributing smoked salmon and other seafood under the Prime Smoke and Studholme brand. On October 2015, the Parent Company divested its interest in PFNZ.

In October 2009, the Parent Company and PFNZ established a joint-venture company called Big Glory Bay ("BGB") that imports salmon from New Zealand, Chile and Norway, among others, and processes it in General Santos City, Mindanao, Philippines. The smoked salmon products from BGB are sold locally and abroad. In October 2015, the Parent Company accepted PFNZ's BGB shares as partial payment for PFNZ's payment obligations to the Parent Company. This resulted in BGB becoming a 100% subsidiary of the Company.

On June 18, 2010, AMHI, a property holding company, was established. The Parent Company owned a 40.00% stake in the affiliate, while MHI, a Filipino company, owned the remaining 60.00% stake. On November 11, 2015, the AMHI Board approved ASFII's application for subscription of preferred shares arising from the increase in authorized capital stock of AMHI. AMHI's application for increase in capital stock was approved by the Securities and Exchange Commission on December 23, 2015. ASFII now owns 98.89% of AMHI. AMHI's registered address is at Purok Saydala, Barangay Tambler, General Santos City.

On August 10, 2011, the Parent Company acquired 100% of the issued share capital of Spence, located in Brockton, Massachusetts, USA. Spence, which became a wholly owned subsidiary of the Parent Company, specializes in the production of smoked salmon and other seafood. On October 23, 2019, the Parent Company divested 100% of its equity investment Spence & Co. Ltd.

The Parent Company acquired an 80% stake in Akaroa in October 2012. With its principal office in Christchurch, New Zealand, Akaroa is engaged in the business of sea cage salmon farming and is among the pioneers of farmed salmon industry in New Zealand. Akaroa smokes and processes fresh salmon, and has established itself as the premium quality brand in the country over the years. Akaroa has been the recipient of various awards and accolades from New Zealand's food industry. It operates two marine farms in the pristine cold waters of Akaroa Harbor in the country's South Island to rear the King, or Chinook, salmon. Akaroa holds a 20% stake in Salmon Smolts NZ Ltd., a modern hatchery with high quality and a consistent supply of smolts (juvenile salmon).

In March 2018, the SEC approved the Amendment of Article Seventh of the Company's Articles of Incorporation to reduce the par value of common shares of the Company from One Peso (P1.00) per share to Fifty Centavos (P0.50) per share, and to decrease the authorized capital stock of the Company from Three Billion Pesos (P3,000,000,000.00) divided into Three Billion (3,000,000,000) common shares with par value of One Peso (P1.00) each to One Billion Five Hundred Million Pesos (P1,500,000,000.00) divided into Three Billion (3,000,000,000) common shares with par value of Fifty Centavos (P0.50) each.

## PRODUCTS

### Tuna

The Group's Tuna Division, comprised of ASFII and PT IAFI, sells processed tuna. The market for tuna is comprised of the institutional and retail markets. The end users of the institutional cans include restaurants, hotels, and commissaries. The retail pack is sold to wholesalers, distributors, and food companies that have their own brands. The retail can is what consumers normally purchase in supermarkets and grocery stores.

In 2018, ASFII and PT IAFI introduced new product offerings comprising pouched tuna products and frozen loins, respectively. ASFII also introduced a premium tuna line under the "Bay of Gold" brand to the local retail market.

### Salmon

BGB processes various salmon species and manufactures them into smoked and raw products for retail and institutional consumers. These are frozen and vacuum packed, and sold in different forms and cuts. Products are sold in retail stores under Prime New Zealand, Gold Standard, and Superfish.

Spence sells the traditional and classic smoked salmon to supermarkets in the US under its own brand and via private label. Salmon species that the firm smokes include Atlantic and Sockeye. In addition to these traditional products, Spence also markets value added salmon products like Nova lox and Gravlax Pastrami Salmon.

Akaroa serves king salmon both for its domestic and international clients. For international markets, Akaroa's products are air-flown and delivered to retailers, distributors or direct customers in Singapore, Japan, USA, Philippines and Hong Kong, among others.

### Fishmeal

Fishmeal is the by-product of tuna and salmon processing operations. Fishmeal is sold as additives or primary ingredients for animal feeds.

## REVENUE BREAKDOWN

The percentage contribution to the Group's revenues broken down into major product lines for each of the three (3) years in the periods ended December 31, 2019, 2018 and 2017 are as follows:

| Product | *December 31, 2019* | *December 31, 2018* | *December 31, 2017* |
|---|---|---|---|
| Tuna | 70% | 69% | 58% |
| Fishmeal (Local) | 4% | 2% | 2% |
| Salmon | 26% | 29% | 40% |
| Total | 100% | 100% | 100% |

## DISTRIBUTION METHODS, SALES AND MARKETING

### Tuna

ASFII and PT IAFI are mainly private label manufacturers of canned tuna. The Tuna Division of the Company has positioned itself as a supplier of canned tuna to a wide range of buyers and agents. Most of the products are finished and labeled, and are ready for shipment to their respective end-destinations. ASFII diversified its product line, and introduced new product offerings, adding pouched tuna options and frozen tuna loins to its product line to the export market. ASFII also introduced a premium canned tuna and salmon lines consisting of seven variants under the Bay of Gold brand for the local market. Bay of Gold is present in select supermarkets in the Philippines.

At present, canned tuna is sold in both domestic and export markets while frozen tuna loins and pouched tuna products are sold in the export market. Fishmeal, on the other hand, is mainly sold to the domestic market.

### Salmon

BGB's products are sold to major supermarkets in the Asia-Pacific region. The Company is also expanding market reach in the Philippines in retail through local supermarkets and foodservice clients.

For Spence, marketing efforts are focused on retail sales, with a special emphasis on brand name and innovation. Spence's sales efforts have been led by professionals with vast experience in the food and retail sector.

Akaroa's products are sold mostly to institutional clients and high-end distributors in the various export markets that it serves. Akaroa also has an online and supermarket presence in New Zealand.

## COMPETITION

### Tuna

There are seven (7) major companies engaged in tuna canning in the Philippines. Six are located in General Santos City and one in Zamboanga. These are General Tuna Corporation, Philbest Canning Corporation, Ocean Canning Corporation, Celebes Canning Corporation, Seatrade Canning Corporation, and Permex Producer & Exporter Corporation.

Most Philippine canned tuna processors produce two (2) can sizes: the retail pack and the institutional pack can size.

The US and EU markets account for approximately 75% of world tuna consumption and are the primary markets of Philippine canned tuna companies. Emerging markets such as Middle East and Asia provide opportunities for the Group to diversify its client base.

Tuna processing is a competitive industry in which price, product quality, and service, play an important role in the customer's purchasing decision.

**Salmon**

The smoked salmon industry in the US is highly fragmented. Each region has a number of local smokers with sales to that particular region only. According to estimates, Spence has the third largest market share in the North East region, where it is located. Spence's biggest competitor is a subsidiary of Marine Harvest Group, a publicly listed firm on the Oslo Bors.

In the Philippines, most competitors import smoked salmon to sell in retail outlets. BGB follows a unique business model where it imports premium-grade salmon and delicately processes it in its own smokehouse to sell a premium product from the Philippines. BGB also competes with other larger traders and small-time players to cater to institutional accounts

Akaroa has a number of competitors who have their own marine farms in New Zealand. New Zealand King, its major competitor, is the country's largest salmon farmer. New Zealand King is listed in the New Zealand stock exchange.

## FISH SOURCING

**Tuna and Salmon**

ASFII and PT IAFI both purchase their tuna from fish suppliers and from large traders. Skipjack and Yellowfin tuna are the main raw fish inputs for processed tuna products.

BGB sources its salmon primarily from New Zealand, Chile and Norway. This is then processed into hot or cold smoked salmon. Meanwhile, Akaroa's fresh chilled salmon and smoked products are sourced from its own farms.

Spence processes and markets mostly Atlantic salmon. While some of the Atlantic salmon are wild caught, the overwhelming majority of the Atlantic salmon consumed in the world is produced through aquaculture. The fish are grown in commercial fish farms. The two leading nations for Atlantic salmon are Norway and Chile.

**Key Fishing Areas - Tuna**

A key resource or catching area for tuna is the Pacific Ocean. According to the Western and Central Pacific Fisheries Commission's WCPFC Tuna Fisheries Yearbook 2018, world tuna catch in 2018 from this fishing area accounted for almost 67% of global tuna catch. The Western Pacific Ocean accounted for 54% of the total while the Eastern Pacific Ocean accounted for another 13% of the global tuna catch. The Pacific Ocean is followed by the Indian Ocean and accounts for 23% of the catch with the Atlantic Pacific accounting for the balance 11%.

**Key Sourcing Area – Salmon**

Almost all of the salmon processed by Spence, BGB and Akaroa are sourced from fish farms in New Zealand, Chile and Norway. This ensures a consistent supply of raw materials for the Company's salmon subsidiaries.

## CUSTOMERS

The Tuna Division has a client base spread over 60 countries. Although our business is based on long term relationships built with our customers, both ASFII and PT IAFI do not have any major existing multi-year sales contracts.

In 2019, the salmon products of BGB were sold both in international and local markets. Spence sells its products to major retailers in the U.S. Akaroa sells its products domestically and has been growing its export customers to complement the increase in harvest size and diversify its customer base.

## TRANSACTIONS WITH AND/OR DEPENDENCE ON RELATED PARTIES

### Alliance MHI Properties, Inc. (AMHI)

AMHI owns the land in General Santos, Philippines, where the Group's processed tuna and smoked salmon operating facilities are located and leases it to ASFII and BGB. The existing lease is until December 31, 2022.

## ACCREDITATIONS, PATENTS & TRADEMARKS

The Group is accredited by a number of international rating and accrediting agencies, as well as domestic rating and inspection bodies.

The Group's tuna operations in General Santos, Philippines and in Bitung, Indonesia have passed various tests and standards for the quality of its products.

In addition to the required government permits and licenses such as the local government business and sanitary permits, and regulatory licenses like the Food and Drug Administration licenses (FDA) and Hazard Analysis Critical Control Point System (HACCP's), the Group also adopts globally-acknowledged best practices in its canned tuna and smoked salmon operations. For its tuna operations, the Group has received, among others, certifications of conformity with the United States Food and Drug Administration (USFDA), International Food Standard (IFS), British Retail Consortium (BRC), Kosher (OU), Islamic Da'wah Council of the Philippines (IDCP Halal), Marine Stewardship Council (MSC), Business Social Compliance Initiative (BSCI), Initiative Clause Sociale (ICS) and Earth Island Institute-Dolphin Safe (EII).

For its smoked salmon and other smoked seafood operations, the Group, aside from the government permits and licenses such as FDA License to Operate as Manufacturer, Exporter, Distributor, and Importer, and its Halal certifications from Mindanao Halal Authority (MINHA) recognized by the BFAR.

In addition, as of December 31, 2019, the Group also has registered trademarks: "Bay of Gold", "Quicklift", "Sea Harvest", "Big Glory Bay", "Gold Standard Salmon", "Prime New Zealand", "Wagyu of Salmon", "Superfish".

| | | |
|---|---|---|
| Bay of Gold | Registration No. 42017011484 | |

| | | |
|---|---|---|
| Quicklift | Registration No. 42018011698 | QUICKLIFT |
| Sea Harvest | Registration No. 42004008474 | SEA HARVEST |
| Big Glory Bay | Registration No. 42011004121 | BIG GLORY BAY |
| Gold Standard Salmon | Registration No. 42014502559 | Gold Standard Salmon |
| Prime New Zealand | Registration No. 42017011482 | PRIME NEW ZEALAND |
| Wagyu of Salmon | Registration No. 42016505298 | WAGYU OF SALMON |

| | | |
|---|---|---|
| Super Fish | Registration No. 42019504525 | |
| Spence & Co. Ltd. | Registration No. 42014009875 (*Voluntarily Cancelled in October 2019) | |

Most of ASFII and PTIAFI's clients have their own brand names. As industry practice, tuna processing can include labeling services for clients carrying their own brands. As for clients who don't have existing brands or those who are looking for alternative brand names, ASFII offers its house brand, Sea Harvest.

## REGULATORY FRAMEWORK/GOVERNMENT APPROVAL

**Industry-particular Governmental Laws and Approvals**

The Bureau of Fisheries and Aquatic Resources (BFAR) is a line bureau reconstituted under the Department of Agriculture, by virtue of Republic Act No. 8550 (Philippine Fisheries Code of 1998). The Philippine Fisheries Code provides for the development, improvement, management, and conservation of the country's fisheries and aquatic resources.

ASFI received a certification from BFAR authorizing the implementation of the Hazard Analysis Critical Control Point (HACCP) System, a method for food safety standards recognized internationally.

BGB has received a certificate of recognition for the implementation of HACCP System from the Bureau of Fisheries and Aquatic Resources (BFAR).

ASFII and BGB are registered with the Food and Drug Administration (FDA). ASFII is registered as a Food Manufacturer and exporter until June 3, 2021; while BGB is registered as a food manufacturer and exporter of processed seafood products until May 25, 2021, and as a food distributor, importer, and wholesaler until September 12, 2021.

For PTIAFI, the Ministry of Marine Affairs & Fisheries of Indonesia awarded the HACCP certification on behalf of EU after PT IAFI successfully passed a series of tests conducted by the Ministry on March 20, 2014. PT IAFI is HACCP certified to process Canned Tuna.

Spence is certified by the United States Food and Drug Administrations and SOF. Meanwhile, Akaroa holds certifications from both Titoki and Lucas Bays for specie farming, as well as New Zealand Food Safety Authority.

**Environment-particular Governmental Laws and Approvals – Environmental & Safety Issues**

The Philippine Environmental Impact Statement System (Presidential Decree No. 1586, as amended) covers projects and undertakings that are classified as environmentally critical as well as projects situated in environmentally critical areas. These projects or undertakings are required to be covered by an Environmental Compliance Certificate (ECC). ASFII's operation of its processing and production facilities is classified as an environmentally critical project.

ASFII has current ECC, Waste Water Discharge permit, and a permit to Operate (Boiler).

For its Bitung facility, PT IAFI was awarded the Certificate of Recommendation by Badan Lingkungan Hidup on April 8, 2015, certifying that PT IAFI complies with environment and safety regulations.

In 2018, Greenpeace Southeast Asia's Tuna Cannery Report ranked both the Group's Philippine and Indonesian tuna facilities as no. 1 in the respective localities, following Sustainability, Sourcing, Traceability, Legality, Driving Change, Equity, and Transparency criteria. In 2019, ASFII received a green rating from Greenpeace.

BGB obtained an Environmental Compliance Certificate on February 12, 2010 which is still valid as of date. In addition to this, BGB also has a Waste Water Discharge Permit which is valid until August 13, 2024. A Permit to Operate (Diesel Engine Generator) was also issued in favor of BGB on May 17, 2017, valid until June 26, 2020. BGB was also registered with the United States Food and Drug Administration (USFDA) on March 26, 2015.

**Business-particular Governmental Laws and Approvals: Labor and Employment**

The Department of Labor and Employment (DOLE) through the Labor Standard Enforcement Division of DOLE Region XII Office, conducts regular inspections of the General Santos plant to ensure compliance with labor laws, particularly those relating to occupational health and safety.

## NUMBER OF EMPLOYEES

As of December 31, 2019, the Group had a total of 2,610 employees and contractors, comprising from its head office in Pasig City, its tuna facilities and its smoked salmon facilities in General Santos City, Philippines, and its offices and/or plants in Indonesia and New Zealand.

## MAJOR RISK FACTORS

**Risks relating to tuna supply**

To ensure continued profitability, the Group's tuna operations need timely and adequate access to the primary raw material, tuna. Fish suppliers should be able to catch tuna where it is abundant without any unreasonable restrictions placed on their operations.

Traditionally, Filipino fishermen deliver frozen tuna caught from Philippine, Indonesian, and international waters.
However, in the last few years, there has been a trend toward resource nationalization and environmental sustainability. Both these trends have presented different kinds of challenges. The Group mitigates tuna supply risk by expanding its supplier base, and strengthening its relationships with key fresh and frozen tuna suppliers.

**Risk relating to salmon supply**

BGB sources its salmon from New Zealand, Chile, and Norway.

Akaroa Salmon New Zealand Ltd. has its own salmon farms and sources all of its salmon raw materials from its farms.

Spence procures its salmon raw material from local fish brokers or directly from farm owners in Chile, Iceland, the United States, Norway, or Scotland. Supplies from these farms fluctuate and may carry with them a risk of outbreak of algae bloom and contagious diseases that may affect supply, and hence, prices.

**Risks relating to competition and tuna selling prices**

Aside from the market price of fish, competition from Philippine and international tuna canners affects the market price of canned tuna. The Tuna Division continuously addresses this situation by ensuring that its position with respect to supply and demand is as close as possible. Furthermore, the Tuna Division is undertaking efficiency improvement initiatives such as supply chain planning & optimization, and cost reduction to mitigate risks related to competition and tuna selling prices.

**Risks relating to competition and salmon selling prices**

BGB faces salmon selling price risks from its competitors and suppliers. However, it is able to command a good price because it has established itself as a producer of high-quality smoked salmon.

Spence also operates in a very competitive market and though price is not the only deciding factor in a consumer's mind, it does play a role. Spence distinguishes itself from its competitors on the quality of products, strong customer relationships and innovation.

Akaroa's excellent fish quality and handling means that it can command premium pricing. It has become a preferred vendor to a number of its clients.

**Risks relating to quality assurance**

Processed tuna and smoked salmon are for human consumption. As such, a high-quality assurance standard for the product is required as product failure can affect human health. The presence of toxins, foreign materials, and the like in the finished products would necessitate the recall of an entire production batch. Product failures would also have an adverse negative effect on manufacturer's reputation.

The Group's quality assurance department is composed of experienced and trained personnel, with specialties ranging from microbiology to fisheries to engineering and sciences. It is responsible for the plant's HACCP plan, Good Manufacturing Practices (GMP), and hygiene compliance.

The risks the Group faces in this area include off-spec products and packaging, failed microbiological results, and substandard laboratory analytical test results. These possible risks are prevented and/or mitigated through a production process that places a premium on best food safety practices and quality procedures.

**Risks relating to the leasing of land and facilities**

Some properties (Spence, Akaroa) where ASFII's facilities are located are being leased from related or third parties. The risks associated with this include non-renewal, and renewal of the lease under unfavorable conditions. ASFII mitigates these risks by entering into long term contracts with the land owners.

**Risks relating to contractual arrangements**

Due to the commodity nature of the tuna industry, buyers will go to the suppliers that provide the best value.

At present, the Company's contractual arrangement with its buyers is undertaken on a "per purchase order" basis with a fixed shipment period. ASFII undertakes to match its contractual obligations with the availability of raw materials as much as possible to minimize its exposure to risks related to contractual arrangements and market volatility.

**Risks relating to the COVID-19 pandemic**

Due to the global pandemic, ASFII's operations were affected by government guidelines on manpower reduction, social distancing, travel restrictions, etc. However, the Company was able to manage this risk by immediately deploying a Business Continuity Plan that covers all aspects of its operations in its plant and offices. This BCP covers a revised manpower plan; foot traffic management; alternative work schedule; and health, sanitation and safety procedures for all employees and essential visitors.

The BCP is in place and the plant continues to operate without any COVID-19-related disruption up to now.

## Item 2 – PROPERTIES and LEASE AGREEMENTS

### ASFII

The Parent Company leases the land where its canned tuna plant in the Philippines is located from AMHI. It pays monthly fees of ₱.6 million for the first year of lease agreement with a 5% lease fee increase per annum. Lease period is for five (5) years starting from January 1, 2018.

The Parent Company also leases a warehouse from AMHI, also located at the AMHI compound. It pays monthly fees of ₱66,274.88 with a 5% lease fee increase per annum. Lease period for the warehouse is for five (5) years starting from January 1, 2018.

The Parent Company leases from Greenhills Properties, Inc. its office spaces located at Suite 3104 in the Philippine Stock Exchange Centre West Tower, Pasig City for a gross monthly rate of ₱223,200 for the first year. The term of the lease is a period of five (5) years, commencing on August 2018, renewable upon mutual agreement of the parties.

### PT IAFI

PT IAFI's facilities are located in the town of Bitung, North Sulawesi in Indonesia. The land area occupied by the factory complex is 14,200 sqm.

PT IAFI owns its production and processing facilities in Bitung Indonesia. These include the land, production facilities, administration building, and all plant and office equipment.

PT IAFI sold its land and buildings to PT Multi Nabati Sulawesi on November 6, 2019.

### BGB

BGB's facilities are also located in the same compound where ASFII's tuna processing plants are located in General Santos City, Mindanao, Philippines. BGB is leasing the land with an area of 985.88 sqm. from AMHI. The rental cost is P22,182 per month and the lease agreement is for five (5) years starting from January 1, 2018.

### SPENCE

Spence does not own any property. The processing facilities are leased from Gael Land Realty LLC. The lease will continue until May 31, 2020. The lease agreement provides ASFII and Spence the option to purchase the property in the future or the right of first refusal. Spence owns the trademark "Spence & Co., Ltd."

**Divested in October 2019.*

### AKAROA

Akaroa's factory is situated at 69 Treffers Road, Wigram, Christchurch. Annual rental payment is NZD 301,500.

### AMHI

AMHI owns land with an area of 68,751sqm. situated at Purok Saydala, Barangay Tambler, General Santos City, South Cotabato. AMHI leases this land to ASFII and BGB under long-term lease contracts.

## Item 3 – LEGAL PROCEEDINGS

The pending and material legal proceedings involving the Company as of December 31, 2019 are as follows:

1. ***Alliance Select Foods International, Inc., represented in this derivative suit by Harvest All Investment Limited, Victory Fund Limited, Bond east Private Limited, and Hedy S.C. Chua v. George E. SyCip, Jonathan Y. Dee, Alvin Y. Dee, Ibarra A. Malonzo, Joanna Y. Dee-Laurel, Teresita Ladanga, and Grace Dogillo,* Commercial Case No. 14-220**

On May 27, 2014, shareholders Harvest All Investment Limited, Victory Fund Limited, Bondeast Private Limited, and Hedy S.C. Chua filed a derivative suit purportedly on behalf of the Company against former Directors Messrs. George E. SyCip, Jonathan Dee, Alvin Y. Dee and Ibarra Malonzo, and certain senior executives of the Company at that time. The derivative suit prayed, among others, for the appointment of an interim management committee, and to compel an accounting and return of Company funds allegedly diverted to corporations controlled by the family of respondents Messrs. Jonathan and Alvin Dee. On 03 February 2015, the respondents filed a motion praying to declare the application of an interim management committee moot and academic in view of the change in the composition of the Company's Board of Directors and management. The Complainants filed a Motion to Inhibit on February 28, 2015, which was granted by the Pasig RTC Branch 159 on January 5, 2016. The case was eventually re-raffled to Pasig RTC Branch 154 on February 1, 2016.

Subsequently, George SyCip filed a Petition for Certiorari before the Court of Appeals, alleging that the inhibition was improper. The Court of Appeals granted said petition. Upon appeal to the Supreme Court, the Supreme Court affirmed the ruling of the Court of Appeals in its Resolution, dated September 19, 2018 (S.C. G.R. No. 239426), which ruling became final and executory.

Case was remanded back to Pasig RTC 159 for trial pursuant to the Order of the Supreme Court, directing RTC 159 to proceed with the hearing of the case.

2. ***Alliance Select Foods International, Inc. v. Hedy S.C. Yap-Chua and Albert Hong Hin Kay,* I.S. No. INV-14F-02786**

On June 11, 2014, the Company, to protect its interests, filed a criminal complaint for Revealing Secrets with Abuse of Office against two of its then directors, Ms. Hedy S.C. Yap-Chua and Mr. Albert Hong Hin Kay, because it had reasonable cause to believe that Ms. Yap-Chua and Mr. Hong revealed to third parties information relating to the Company's financials given to them in confidence, in breach of their fiduciary duty to the Company. The Office of the City Prosecutor of Pasig City dismissed the case, and the Company has since filed its appeal with the Department of Justice, where the case remains pending.

3. ***In the matter of Alliance Select Foods International, Inc.,* SEC-EPD Case No. 14-3042**

On September 18, 2014, the Company received a letter dated September 12, 2014 from the SEC – Enforcement and Investor Protection Department (SEC-EIPD) directing the Company to submit a written explanation on the allegations of shareholder Mr. Necisto U. Sytengco within fifteen (15) days from receipt of said letter. Mr. Sytengco filed letter-complaints with the SEC alleging that his rights as shareholder were disregarded during the Company's Annual Stockholders' Meeting held on June 16, 2014 because he was barred from entering the venue of said meeting, purportedly in violation of the Revised Code of Corporate Governance (CG Code) provisions on shareholders' rights. On September 23, 2014, or five (5) days from receipt of the SEC letter, the Company filed its letter-response to the SEC explaining that Mr. Sytengco was barred from entering the venue because of his behavior which was disruptive to the meeting.

In an Order dated October 28, 2014, the SEC-EIPD erroneously held that the Company failed to comply with its directive to submit a written explanation, and adjudged the Company liable for the alleged violations of the CG Code. On November 21, 2014, the Company appealed the SEC-EPID Order before the SEC En Banc, where the same remains pending.

4. ***Harvest All Investment Limited, Victory Fund Limited, Bondeast Private Limited, Albert Hong Hin Kay and Hedy S.C. Yap Chua v. Alliance Select Foods International, Inc., George E. SyCip, Jonathan Y. Dee, Raymond K.H, See, Marie Grace T. Vera-Cruz, Antonio C. Pacis, Erwin M. Elechicon and Barbara Anne C. Migallos,* Commercial Case No. 15-234**

On August 5, 2015, Harvest All Investment Limited, Victory Fund Limited, Bondeast Private Limited, Albert Hong Hin Kay and Hedy S.C. Yap Chua ("Harvest All et al.") filed a Complaint (with application for the issuance of Writ of Preliminary Mandatory Injunction and Temporary Restraining Order/Writ of Preliminary Injunction) with the Pasig Regional Trial Court ("Pasig RTC"), against Alliance Select Foods International, Inc., its then Directors Messrs. George E. SyCip, Jonathan Y. Dee, and current Directors Raymond K.H, See, Mary Grace T. Vera-Cruz, Antonio C. Pacis, and Erwin M. Elechicon and Corporate Secretary Barbara Anne C. Migallos (the "Company") praying, among others, that the Company be restrained from carrying out its Stock Rights Offering, and that the Company be compelled to hold its Annual Stockholders' Meeting prior to the said Stock Rights Offering. The Stock Rights Offering would raise gross proceeds of P1,000,000,000.00 to be used for needed capital expenditures, repayment of loans, installation of a new management information system, and working capital requirements of the Company.

In a Resolution dated August 14, 2015, the Pasig RTC denied the prayer for a Temporary Restraining Order. The Pasig RTC held that Harvest All et al. failed to show that it had a clear and unmistakable right that was or would be violated by the conduct of Annual Stockholders' Meeting after the Stock Rights Offering. The Pasig RTC noted that Temporary Restraining Order is unwarranted because Harvest All et al. were granted the right to subscribe to the Stock Rights Offering to prevent the dilution of shareholdings and voting rights feared by Harvest All et al.

In a Resolution dated 24 August 2015, the Pasig RTC dismissed the Complaint for lack of jurisdiction over the subject matter of the case due to Harvest All et al.'s failure to pay the correct filing fees (the "RTC Resolution").

In the meantime, the offer period for the Stock Rights Offering, which commenced on August 17, 2015, ended on August 26, 2015. On September 7, 2014, the Company's Board scheduled the Company's Annual Stockholders' Meeting on November 17, 2015 with record date on October 20, 2015. The Board of Directors later on decided to reschedule the Annual Stockholders' Meeting to December 16, 2015.

Harvest All et al. filed a Petition for Review with the Court of Appeals to reverse and set aside the RTC Resolution dismissing the Complaint. It also prayed that the Company be restrained from implementing the October 20, 2015 record date of the Annual Stockholders' Meeting, and to compel the Company to set the record date of the Annual Stockholders' Meeting to a date prior to the Stock Rights Offering.

On 15 December 2015, the Court of Appeals issued a Resolution of even date granting Harvest All et al.'s prayer for a Temporary Restraining Order ("TRO"), effective for a period of 60 days from notice, enjoining the parties to maintain and preserve the status quo pending resolution of the Petition for Review, after Harvest All et al. posts the required bond (the "TRO Resolution"). The Court of Appeals issued the TRO the next day, or on 16 December 2015, the date of the Meeting. The Company received the TRO a few hours before said Meeting. The Company and the respondent directors and officers filed motions for reconsideration of the TRO Resolution and to dissolve the TRO.

The Court of Appeals rendered a Decision dated February 15, 2016 sustaining the position of the Company that Harvest All et al., should pay the correct filing fees for its Complaint with the Pasig RTC. Both parties filed their respective Motions for Reconsideration, and both were subsequently denied.

Jonathan Dee filed a Petition for Review on Certiorari with the Supreme Court to set aside the ruling of the Court of Appeals and affirm the ruling of the Pasig RTC dismissing the case (SC G.R. No. 224834).

Harvest All et al. on the other hand filed their only Petition for Review on Certiorari with the Supreme Court questioning the ruling of the Court of Appeals that though the case should not be dismissed because Harvest All et al. was not in bad faith in not filing the proper filing fee, the latter should pay the filing fee based on the 2015 SRO, which would amount to approximately Php 20 Million.

The Petitions for Review on Certiorari were consolidated by the Supreme Court. On March 15, 2017, the Supreme Court rendered a Decision in favor of the petition of Harvest All et al., ruling that the intra-corporate controversies may involve a subject matter which is either capable or incapable of pecuniary estimation, and remanded the case back to the RTC to assess the correct filing fees, and upon payment, to proceed with the regular proceedings of the case. The Company, as well as the other Defendants filed their respective motions for reconsiderations.

The Supreme Court denied the motions for reconsideration with finality and the case was remanded back to the Regional Trial Court of Pasig City, branch 159, under Judge Lingan. Thereafter, the Company filed a Motion for Factual Determination of Mootness, arguing that the cause of action of Plaintiffs is already moot and academic. Defendant Migallos likewise filed a Motion to Dismiss arguing also that the case is already moot and academic.

Plaintiffs however, filed a Motion for Inhibition against Judge Lingan (RTC 159), which said Judge granted. Defendant SyCip filed a Petition for Certiorari and Mandamus with Application for the Issuance of TRO and/or Writ of Preliminary Injunction before the Court of Appeals against Judge Lingan for inhibiting from the case (CA-G.R. SP No. 158324).

Pursuant to the inhibition of Judge Lingan (RTC 159), the case was eventually re-raffled to RTC 265 on April 4, 2019.

The case was referred to mediation on October 18, 2019. The parties underwent mediation until January 2020, but parties failed to enter into a settlement. Pre-Trial Conference was set on March 4, 2020.

On the day of the Pre-Trial Conference, before hearing started, the parties received an Omnibus Order, dated February 20, 2020, issued by RTC 265 **dismissing the case** due to forum shopping and being moot and academic.

**Item 4 – SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

I. Annual Stockholders Meeting (for 2019)

a. Date: June 25, 2019
Time: 2:30 PM
Place: The Philippine Stock Exchange Auditorium, Ground Floor, Philippine Stock Exchange Centre, Exchange Road, Ortigas Center, Pasig City, Metro Manila 1605

b. Election of Officers:

Regular Directors:

1. Raymond K.H. See – 1,672,999,044- cumulative votes
2. Marie Grace T. Vera Cruz – 1,672,988,670 cumulative votes
3. Joseph Peter Y. Roxas – 1,672,961,439 cumulative votes
4. Gabriel A, Dee – 1,672,971,813 cumulative votes
5. Antonio C. Pacis – 1,672,961,439 cumulative votes

Independent Directors:

1. Erwin M. Elechicon - 1,672,971,813 cumulative votes
2. Dobbin A. Tan – 1,672,964,033 cumulative votes

c. Matters Voted Upon:

| Item | Yes | No | Abstain | Objection |
|---|---|---|---|---|
| 1. Reading and approval of the Minutes of the 2018 Annual General Meeting of Stockholders held on July 4, 2018 | 1,672,678,207 (66.91%) | 331,364,352 (13.26%) | 13,162,979 (.53%) | |

| | | | | |
|---|---|---|---|---|
| 2. Approval of the Annual Report and the Audited Financial Statements for the Year ended December 31, 2018. | 1,672,678,207 (66.91%) | 331,364,352 (13.26%) | 19,872,408(0 .79%) | |
| 3. Ratification and Approval of Acts of the Board of Directors and Executive Officers for the Corporate year 2017-2018 | 1,678,678,207 (66.91%) | 331,364,352 (13.26%) | 13,162,979(. 53%) - | |
| 4. Appointment of Reyes Tacandong & Co. as the Company's Independent External Auditor for 2019 | 1,672,678,207 (66.91%) | 331,364,352 (13.26%) | 13,162,979(0 .53%) | |

**All matters reported under Item 4 have also been published in the Company's website at www.allianceselectfoods.com.*

## Part II – OPERATIONAL AND FINANCIAL INFORMATION

### Item 5 – MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The company's common stock equity, its only class of shareholders, is traded on the Philippine Stock Exchange under the stock symbol FOOD. Quarterly High and Low prices for the last two (2) fiscal years, without stock adjustments, are as follows:

| | 2019 | | 2018 | | 2017 | |
|---|---|---|---|---|---|---|
| | High | Low | High | Low | High | Low |
| Q1 | 1.02 | 0.95 | 0.66 | 0.63 | 0.82 | 0.80 |
| Q2 | 0.86 | 0.72 | 0.62 | 0.55 | 0.86 | 0.84 |
| Q3 | 0.78 | 0.68 | 0.59 | 0.57 | 0.79 | 0.77 |
| Q4 | 0.68 | 0.51 | 1.10 | 1.04 | 0.62 | 0.61 |

On December 27, 2019, the last trading day for the year, the closing price for FOOD was ₱0.51per share.

The number of shareholders of record as of December 31, 2019 owning at least one board lot is 202 and the total number of shares outstanding on that date were 2,499,712,463 net of 287,537 treasury shares.

Public float as of December 31, 2019 is 31.86%.

Top 20 shareholders as of December 31, 2019 were:

| Name | No. of shares | % ownership |
|---|---|---|
| 1. PCD Nominee Corporation (Filipino) | 2,021,609,224 | 80.86% |
| 2. Harvest All Investment Limited | 177,261,165 | 7.09% |
| 3. Victory Fund Limited | 138,474,015 | 5.54% |
| 4. PCD Nominee Corporation (Foreign) | 84,404,924 | 3.38% |
| 5. Albert Hin Kay Hong | 39,017,537 | 1.56% |
| 6. Bondeast Private Limited | 13,023,411 | 0.52% |
| 7. Kawsek JR., Peter | 4,538,646 | 0.18% |
| 8. Martin Antonio G. Zamora | 3,975,370 | 0.16% |
| 9. Cordova, Michael V. | 3,805,000 | 0.15% |
| 10. S. Chandra Das | 2,604,760 | 0.10% |
| 11. Oriental Tin Can & Metal Sheet MFG | 2,210,385 | 0.09% |
| 12. FDCP Inc. | 1,894,045 | 0.08% |
| 13. Cheng, Berck Yao | 1,200,000 | 0.05% |
| 14. Tri-Marine International (Pte) Ltd. | 1,170,472 | 0.05% |
| 15. Damalerio Fishing Corp. | 920,656 | 0.04% |

| | | |
|---|---|---|
| 16. DFC Tuna Venture Corporation | 617,248 | 0.02% |
| 17. Phil. Fisheries Development Authority | 346,207 | 0.01% |
| 18. Amadeo Fishing Corp. | 294,874 | 0.01% |
| 19. Alliance Tuna International Inc. | 257,464 | 0.01% |
| 20. GENPACCO, Inc. | 172,973 | 0.01% |

As of March 31, 2020, foreign ownership of the company's common stock equity stands at 18.20% or 454,944,159 - common shares. Locally owned common stock stands at 81.80% or 2,044,764,795 common shares. Currently, there is no foreign ownership limitation applicable to FOOD.

## Item 6 – MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATION

The following discussion should be read in conjunction with the accompanying consolidated financial statements of Alliance Select Foods International, Inc., and its Subsidiaries (the "Group") which comprise the consolidated statements of financial position as of December 31, 2019, 2018 and 2017 and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended. The financial statements of the Group have been prepared in accordance with the Philippine Financial Reporting Standards (PFRS), which includes all applicable PFRS, Philippine Accounting Standards (PAS) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC. PFRS is an International Financial Reporting Standards equivalent.

The consolidated financial statements are presented in United States Dollar, the currency of the primary economic environment in which the Group operates.

### CY 2019 COMPARED TO CY 2018

### I. FINANCIAL HIGHLIGHTS

| | Years Ended December 31 | | |
|---|---|---|---|
| *Amount in US $'000* | **2019** | **2018** | **% Change** |
| Revenue | $84,883 | $97,134 | -13% |
| Gross profit | 8,177 | 12,340 | -34% |
| **Gross margin** | **10%** | **13%** | |
| Selling & Administrative Expenses | 8,564 | 7,341 | 17% |
| Finance Cost | 2,035 | 1,504 | 35% |
| **Profit (loss) -for the year** | **(5,132)** | **2,603** | **- 297%** |
| Non-controlling interest | (47) | 79 | -160% |
| Profit (loss)- attributable to equity holders of the parent | (5,085) | 2,524 | -301% |
| **Net Profit - Margin** | **-6%** | **3%** | |
| EBITDA | **(360)** | **6,073** | -106% |
| *EBITDA* margin | **-0%** | **6%** | |
| **Return on equity (ROE)** | **-15%** | **7%** | |
| **Earnings - per share** | **-0.002** | **0.001** | **-301%** |
| **Book value per share** | **0.0134** | **0.0154** | **-13%** |

## I. OPERATING PERFORMANCE

The Group's consolidated revenues of $85 million in 2019 were 13% lower than the revenues of $97 million in 2018. In 2019, about 74% of total revenues were contributed by tuna-related products and the remaining 26% were contributed by salmon-related products. There is a 10% and 19% decline in revenue for the tuna and salmon segments, respectively. Drop in tuna segment sales was due to the decline in tuna prices translating to lower average selling prices in 2019. The disposal of 100% equity investment in Spence around October 2019 impacted salmon segment sales during the year.

The Group's gross profits of $8 million in 2019 is lower than gross profits of $12 million in 2018. The gross profit margin is at 10% and 13% in 2019 and 2018, respectively. The labor shortage in ASFII during the first half of the year drove production inefficiency, with lower loining recovery resulting to increased material costs.

After years of suffering losses due to frequent shut downs of PT IAFI primarily due to Indonesian fishing regulations that have made foreign commercial fishing in Indonesian waters practically impossible, resulting in higher fish prices and insufficient supply for tuna canneries across Indonesia, management decided to change core business operations in Indonesia to export trading, and pursued a sale of IAFI's fixed assets in North Sulawesi.

The Group sold its 100% stake in Spence to ACME last October 2019.

Over the past three years, the Group has successfully implemented measures to reduce selling and administrative expenses and has consistently managed costs to partially cushion the impact of the inherent volatility in raw material prices.

As part of the Company's risk management process and in line with its Accounting Policies, when the net realizable value of the inventories are lower than cost, the Company provides for an allowance for the decline in inventory value. The reversal of any provision for inventory obsolescence, arising from any increase in net realizable value, is recognized as a reduction in the inventory amount in the period when the reversal occurs. When the inventory is sold, the carrying amount of the inventory is recognized as an expense in the period when the related revenue is recognized. Property, plant and equipment are likewise measured at cost less depreciation and provision for impairment losses. In CY 2019, the Group recognized the following provisions in its books:

- Inventory write down and allowance for inventory obsolescence for the Group totaling $921,936. The provision also accounts for the passage of time and its adverse impact on the value of unsold inventory.

- Provision for trade and other receivables amounting to $11,729. The Group identified specific accounts that are doubtful of collection, considering historical collection and write-off experience, and provided a provision pertaining to the amounts deemed to be uncollectible.

The Group's finance costs of $2.0 million in 2019 were 35% higher than its finance costs of $1.5 million in 2018. Increase in finance cost can be attributed to higher prevailing borrowing rates and the greater working capital requirement to support growing operation particularly in securing raw materials.

The Group ended the year with a net loss of $ 5.1 million from $ 2.6 million net income in 2018.

### III. FINANCIAL CONDITION

| Balance Sheet Highlight | Years Ended December 31 | | |
|---|---|---|---|
| *Amount in US$'000* | **2019** | **2018** | **% Change** |
| Cash & cash equivalent | $1,871 | $7,012 | -73% |
| Receivables | 12,114 | 11,849 | 2% |
| Inventories | 12,659 | 13,946 | -9% |
| Other current assets | 10,141 | 8,155 | 24% |
| **Total Current Assets** | **$36,785** | **$40,961** | **-10%** |
| Property & Equipment | 16,275 | 15,486 | -5% |
| **Total Assets** | **$67,808** | **$77,039** | **-12%** |
| Trade and Other Payables | $6,183 | $9,140 | -32% |
| Bank Loans | 22,344 | 30,917 | -28% |
| **Total Current Liabilities** | **28,709** | **40,244** | **-29%** |
| **Total Liabilities** | **36,508** | **40,748** | **-10%** |
| **Total Stockholders' Equity** | **31,300** | **36,291** | **-14%** |
| **Total Liabilities & SE** | **$67,808** | **$77,039** | **-12%** |

There was no impairment of goodwill recognized during the year.

Proceeds from the sales of Spence and disposal/retirement of property, plant and equipment in PT IAFI were mainly used to pay-off loans from local banks and trade payables.

| **Amounts as of December 31** | **2019** | **2018** |
|---|---|---|
| Current Ratio | 1.28 | 1.02 |
| Debt-to-equity Ratio | 1.17 | 1.12 |

## IV.SOURCES AND USES OF CASH

A brief summary of cash flow movements is shown below:

| | Years Ended December 31 | |
|---|---|---|
| ***Amount in US$'000*** | **2019** | **2018** |
| Operating cash flows before working capital changes | **$1,039** | $5,192 |
| Net cash flows from operating activities | **(7,495)** | 222 |
| Net cash flows from investing activities | **9,597** | (397) |
| Net cash flows from financing activities | **(7,307)** | 2,798 |

Net cash used in investing activities included the following:

| | Years Ended December 31 | |
|---|---|---|
| ***Amount in US$'000*** | **2019** | **2018** |
| Additions to property, plant and equipment | **($2,854)** | ($421) |
| Proceeds from sale of property, plant and equipment | **2,226** | 24 |
| Proceeds from sale of investment in a subsidiary | **10,225** | — |

Major components of cash flow provided by financing activities are as follows:

| | Years Ended December 31 | |
|---|---|---|
| ***Amount in US$'000*** | **2019** | **2018** |
| Proceeds from bank loans | **$60,743** | $48,426 |
| Payment of bank loans | **(67,769)** | (41,806) |
| Payment of interest | **(2,001)** | (1,772) |
| Due to related parties | **1,908** | (2,051) |

The Group does not foresee any cash flow or liquidity problem over the next twelve (12) months. It is in compliance with its loan covenant on debt-to-equity ratio. It is not aware of any material off-balance sheet transactions, arrangements, obligations (including contingent obligations) and other relationship of the Group with entities or other persons created during the reporting period that would have significant impact on the Group's operations and/or financial condition.

As of December 31, 2019, there were no material events or uncertainties known to management that had a material impact on past performance or that could have a material impact on the future operations, in respect of the following:

- Known trends, demands, commitments, events or uncertainties that would have a material impact on the Group;
- Known trends, events, uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales/revenues/ income from continuing operations;
- Significant elements of income or loss that did not arise from the Group's continuing operations; and Seasonal aspects that had a material effect on the financial condition or results of operations.

## V. KEY PERFORMANCE INDICATORS

The Group uses the following key performance indicators to assess the Group's financial performance from period to period.

| | Years ended December 31 | |
|---|---|---|
| **Key performance indicator** | **2019** | **2018** |
| Revenue growth rate | -13% | 35% |
| Net profit margin | -6% | 3% |
| Current ratio | 1.28 | 1.02 |
| Debt to equity ratio | 1.17 | 1.12 |
| Return on average stockholders' equity | -15% | 7% |

The following defines each ratio:

- The revenue growth rate is the Group's increase in revenue for a given period. This growth rate is computed from the current revenue less revenue of the previous year, divided by the revenue of the previous year. The result is expressed in percentage.

- The net profit margin is the ratio of the Group's net income attributable to equity holders of the parent versus its net revenue for a given period. This is computed by dividing net income after tax by net revenue. The result is expressed in percentage.

- The total liabilities to equity ratio are used to measure debt exposure. It shows the relative proportions of all creditors' claims versus ownership claims. This is computed by dividing total liabilities by total stockholders' equity. The result is expressed in proportion.

- The return on average stockholders' equity ratio is the ratio of the Group's net income attributable to equity holders of the parent to the average stockholders' equity. This measures the management's ability to generate returns on investments. This is computed by dividing net income attributable to equity holders of the parent by the average stockholders' equity. The result is expressed in percentage.

## Item 7 – FINANCIAL STATEMENTS

The Audited Financial Statements and schedules listed in the accompanying Index to Financial Statements and Supplementary Schedules are filed as part of this form 17-A.

## Item 8 – CHANGES AND DISAGREEMENTS WITH ACCOUNTANT AND FINANCIAL DISCLOSURE

None.

## Item 9 – INDEPENDENT PUBLIC ACCOUNTANTS AND AUDIT RELATED FEES

*Independent Public Accountants*

As endorsed by the Audit Committee in line with Audit Committee's approval policies and procedures for external audit services, the Board of Directors of the Company in its meeting on September 7, 2015 approved the appointment of Reyes, Tacandong & Co. as the Company's independent external auditors for the year 2015. On March 1, 2016, the Stockholders of the company ratified the appointment of said auditing firm as independent auditor of the Company for 2015. During the Annual Stockholders' Meeting held on June 25, 2019, the stockholders ratified the re-appointment of Reyes Tacandong & Co. as the Company's Independent External Auditor for 2019.

*Audit Related Fees*

The following table sets out the aggregate fee billed for professional services rendered by Reyes, Tacandong & Co. for CY 2019 and PYs 2018 and 2017.

| **Audit and Audit-Related Fees** | **2019** | **2018** | **2017** |
|---|---|---|---|
| Regular Audit | **₱1,370,000** | ₱1,345,000 | ₱1,280,000 |
| Review of proposed equity restructuring | - | - | 600,000 |
| All Other Fees | **238,100** | 134,500 | 128,000 |
| **Total Audit and Audit-Related Fees** | **₱ 1,608,100** | ₱ 1,479,500 | ₱ 2,008,000 |

## Part III – CONTROL AND COMPENSATION INFORMATION

### Item 10 – DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

*Board of Directors*

| Director | Nationality | Position | Age | Year Position was Assumed |
|---|---|---|---|---|
| Antonio C. Pacis | Filipino | Chairman of the Board | 79 | 2014 |
| Gabriel A. Dee | Filipino | Vice Chairman | 55 | 2018 |
| Raymond K.H. See | Filipino | Director, President & CEO | 52 | 2014 |
| Marie Grace T. Vera Cruz | Filipino | Director | 39 | 2014 |
| Joseph Peter Y. Roxas | Filipino | Director | 58 | 2016 |
| Erwin M. Elechicon | Filipino | Independent Director | 60 | 2016 |
| Dobbin A. Tan | Filipino | Independent Director | 56 | 2016 |

**ANTONIO C. PACIS** - 79, Filipino citizen; Chairman of the Board

Mr. Pacis obtained his law degree from the Ateneo Law School in 1965 and his masteral law degree from the Harvard Law School in 1967.

He is on the Board of Directors at OCLP Holdings Inc., BDO Unibank, Inc., Paluwagan NG Bayan Savings Bank, Armstrong Pacific Co., Inc., Legisforum, Inc., Technology Investment Co., Inc. and Central Colleges of The Philippines.

He is Chairman of the Board of Directors at Asian Silver Estate, Inc., International Social Service Philippines, Inc., Amigo Holdings, Inc., Asian Waterfront Holdings, Inc., Mantle Holdings, Inc., and Corporate Secretary for Armstrong Securities, Inc., EBC Strategic Holdings Corp., and Paluwagan NG Bayan Savings Bank.

Mr. Pacis has been practicing law since 1965 and continues to practice at Pacis and Reyes Law Office and was a professor of law at the Ateneo Law School.

**GABRIEL A. DEE** - 55, Filipino citizen; Vice-Chairman

Mr. Dee obtained his law degree from the University of the Philippines College of Law in 1988 and his MBA Units at Ateneo De Manila Graduate School of Business from 1990-1992.

He is the Managing Partner of Picazo Buyco Tan Fider & Santos Law Offices from 2006 to date. He is a Director and Corporate Secretary of various listed and unlisted corporations, including several financial institutions. He is also a resource person for various seminars on IPO's, Listings and Estate Planning.

Mr. Dee has been practicing law since 1989. He is a professor of law teaching Corporation Law at the Lyceum College of Law and UP College of Law.

**RAYMOND K. H. SEE** - 52, Filipino citizen; Director, President & CEO

Mr. See graduated from De La Salle University in 1989 with a degree in B.S. Industrial Management Engineering, minor in Mechanical Engineering.

Prior to joining the Company, Mr. See was a former executive from Pilipinas Shell Petroleum Corporation. He rose from the ranks in his 24 year stay in the said company. Mr. See was the Senior Vice-President for Operation of the Company before being appointed as President & CEO of the Company on December 8, 2014.

**MARIE GRACE T. VERA CRUZ** - 39, Filipino citizen; Director

Ms. Vera Cruz holds an MBA from London Business School and a Bachelor's Degree in Business Economics from the University of the Philippines, where she graduated Magna cum Laude.

Ms. Vera Cruz is the Managing Director of Seawood Resources, Inc., an investment company based in the Philippines. She is also the President of Strongoak, Inc. Prior to Seawood and Strongoak, Ms. Vera Cruz was a consultant at McKinsey & Co.

**JOSEPH PETER Y. ROXAS** - 58, Filipino citizen; Director

Mr. Roxas graduated from the Ateneo de Manila University in 1983 with a Bachelor's degree in Economics. He also has MBA units from the Ateneo de Manila University Graduate School.

Mr. Roxas is President of Eagle Equities, Inc. since 1996. He is also presently a Director of Kimquan Trading Corporation, a privately held company. He is also a Director of the Association of Securities Analysts of the Philippines since 2000. Mr. Roxas was with R. Coyuito Securities as Assistant Vice President for Research from 1993 to 1995, and Investment Officer from 1987 to 1992.

**ERWIN M. ELECHICON** - 60, Filipino citizen; Independent Director

Mr. Elechicon is currently the Chairman of the Board of Directors of Silver Machine Digital Communications, Inc. He is also a member of the Board of Directors of Union Bank of the Philippines, Inc.; a founding Partner of the T88C Company; and a member of the Board of Directors of Facility Servisys, Inc. He was a former member of the Board of Directors of PETRONAS Dagangan Berhad (Malaysia) and U-BIX Philippines Corporation.

He started his career with The Procter & Gamble Company and stayed for over 26 years until 2005, when he was Vice President – Fabric & Home Care, responsible for the ASEAN/ Australia / NZ / India Region. He then became the President of Greenwich Pizza Company from 2006-2008 and Fresh N' Famous Foods, Inc. (Chowking) from 2008-2010. He was also the Head of International Business Development of Jollibee Foods Corporation from 2010-2011.

In addition, Mr. Elechicon is the Vice Chairman and member of the Board of Trustees of Ateneo de Iloilo, Inc.; President and member of the Board of Trustees of the P&Gers Fund, Inc.; Past President and member of the Board of Trustees of the Ateneo Association of Former Resident Students, Inc.; and member of the Board of Directors of Pag-Inupdanay Community Academy, Inc.

He graduated with a degree in Economics, *Cum Laude*, from the Ateneo de Manila University. He also completed courses in Finance and Marketing at Columbia University and at Kellogg School of Management, respectively.

**DOBBIN A. TAN** - 56, Filipino citizen; Independent Director

Mr. Tan graduated from the Ateneo de Manila University in 1985 with a Bachelor of Science degree in Management Engineering. He obtained his Master's degree in Business Administration from the University of Chicago, Booth School of Business in 2013. Mr. Tan also attended a Management Development Program of the Asian Institute of Management in 1990, and a Strategic Business Economics Program of the University of Asia and the Pacific in 2001.

Mr. Tan is presently Chief Executive Officer of New Sunlife Ventures, Inc. He was Managing Director and Chief Operating Officer of Information Gateway from 2002 to 2012. Mr. Tan also served as Vice President for

Marketing of Dutch Boy Philippines from 2000 to 2002, President of Informatics Computer College from 1997 to 2000, Assistant Vice President for Marketing of Basic Holdings from 1994 to 1997, Operations Manager of DC Restaurant Management Systems from 1990 to 1994, and Senior Financial Analyst/ Corporate Planning Manager for San Miguel Corporation from 1985 to 1990.

*Executive/Principal Officers*

| Officer | Nationality | Position | Age | Year Position was Assumed |
|---|---|---|---|---|
| Raymond K.H. See | Filipino | President & CEO | 52 | 2014 |
| Lisa Angela Y. Dejadina | Filipino | SVP – Operational Excellence and Business Development | 37 | 2014 |
| Barbara Anne C. Migallos | Filipino | Corporate Secretary | 65 | 2015 |
| Ma. Kristina P. Ambrocio | Filipino | Asst. Corporate Secretary and Compliance Officer | 41 | 2015 |

**EXECUTIVE OFFICERS**

**RAYMOND K.H. SEE** – 52, Filipino citizen; President & CEO.

Mr. See graduated from De La Salle University in 1989 with a degree in B.S. Industrial Management Engineering, minor in Mechanical Engineering.

Prior to joining the Company, Mr. See was a former executive from Pilipinas Shell Petroleum Corporation who rose from the ranks in his 24 year stay in the said company. Mr. See was the Senior Vice-President for Operation of the Company before being appointed as President and Chief Executive Officer of the Company on December 8, 2014.

**LISA ANGELA Y. DEJADINA** – 37, Filipino citizen; Senior Vice President for Operational Excellence and Business Development

Ms. Dejadina has a degree in B.S. Industrial Engineering from the University of the Philippines where she graduated in 2005.

Prior to joining the company, Ms. Dejadina worked at Pilipinas Shell Petroleum Corporation where she covered various roles contributing to ten years of solid work experience in the petroleum industry in the areas of fuel depot operations, Health, Safety, Security and Environment (HSSE) management, and business support functions (business development, logistics, and learning & development).

**BARBARA ANNE C. MIGALLOS** – 65, Filipino citizen; Corporate Secretary.

Ms. Migallos graduated cum laude from the University of the Philippines, with a Bachelor of Arts degree, and finished her Bachelor of Laws degree as cum laude (salutatorian) also at the University of the Philippines. She placed third in the 1979 Philippine Bar Examination.

Ms. Migallos was elected as Corporate Secretary of the Company on July 6, 2015. She is Director and Corporate Secretary of Philex Mining Corporation and Philex Petroleum Corporation, and Corporate Secretary of Nickel Asia Corporation and Silangan Mindanao Mining Co., Inc. She is the Managing Partner of the Migallos & Luna Law Offices. Ms. Migallos is also a Director of Mabuhay Vinyl Corporation and Philippine Resins Industries, and Corporate Secretary of Eastern Telecommunications Philippines, Inc. She is a professorial lecturer in Corporations Law, Insurance, Securities Regulation and Credit Transactions at the De La Salle University College of Law. She was a Senior Partner of Roco Kapunan Migallos and Luna Law Offices from 1988 to 2006.

**MA. KRISTINA P. AMBROCIO** - 41, Filipino citizen; Assistant Corporate Secretary and Compliance Officer

Ms. Ambrocio graduated from the Ateneo de Manila University in 2001 with a major in Philosophy, and minor in Humanities. She obtained her law degree in 2005 from the University of the Philippines. Ms. Ambrocio also completed an Advanced Intellectual Property Law course at the Institute of European Studies of Macau in 2006.

Prior to joining the Company, Ms. Ambrocio was Corporate Counsel and Assistant Corporate Secretary of Chevron Philippines, Inc.

*Significant Employees*

No single person is expected to make a significant contribution to the business since the Group considers the collective efforts of all its employees as instrumental to the overall success of its performance.

*Involvement in Certain Legal Proceedings*

Except as otherwise discussed below and to the best of the Company's knowledge, there has been no occurrence during the past five (5) years to date of any of the following events that are material to an evaluation of the ability or integrity of any director, any nominee for election as director, executive officer, underwriter, or controlling person of the Company:

- any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer, either at the time of the bankruptcy or within two (2) years prior to that time;

- any conviction by final judgment, including the nature of the offense, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;

- being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities; and

- being found by a domestic or foreign court of competent jurisdiction (in a civil action), the SEC or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended or vacated.

The pending and material legal proceedings involving the Company's Directors and Officers, as of December 31, 2019 are as follows:

1. ***Alliance Select Foods International, Inc., represented in this derivative suit by Harvest All Investment Limited, Victory Fund Limited, Bondeast Private Limited, and Hedy S.C. Chua v. George E. SyCip, Jonathan Y. Dee, Alvin Y. Dee, Ibarra A. Malonzo, Joanna Y. Dee-Laurel, Teresita Ladanga, and Grace Dogillo,*** **Commercial Case No. 14-220**

On May 27, 2014, shareholders Harvest All Investment Limited, Victory Fund Limited, Bondeast Private Limited, and Hedy S.C. Chua filed a derivative suit purportedly on behalf of the Company against former Directors Messrs. George E. SyCip, Jonathan Dee, Alvin Y. Dee and Ibarra Malonzo, and certain senior executives of the Company at that time. The derivative suit prayed, among others, for the appointment of an interim management committee, and to compel an accounting and return of Company funds allegedly diverted to corporations controlled by the family of respondents Messrs. Jonathan and Alvin Dee. On 03 February 2015, the respondents filed a motion praying to declare the application of an interim management committee moot and academic in view of the change in the composition of the Company's Board of Directors and management. The Complainants filed a Motion to Inhibit on February 28, 2015, which was granted by the Pasig RTC Branch 159 on January 5, 2016. The case was eventually re-raffled to Pasig RTC Branch 154 on February 1, 2016.

Subsequently, George SyCip filed a Petition for Certiorari before the Court of Appeals, alleging that the inhibition was improper. The Court of Appeals granted said petition. Upon appeal to the Supreme Court, the Supreme Court affirmed the ruling of the Court of Appeals in its Resolution, dated September 19, 2018 (S.C. G.R. No. 239426), which ruling became final and executory.

Case was remanded back to Pasig RTC 159 for trial pursuant to the Order of the Supreme Court, directing RTC 159 to proceed with the hearing of the case.

2. ***Hedy S.C. Yap-Chua and Albert Hong Hin Kay v. George E. SyCip, Jonathan Y. Dee, Ibarra A. Malonzo, and Avelino M. Sebastian, Jr., Commercial Case No. 14-219***

On May 12, 2014, Ms. Hedy S.C. Yap-Chua and Mr. Albert Hong Hin Kay filed a Petition for the Declaration of Nullity of Board Resolutions and Inspection of the Corporate Books and Records, with Prayer for Issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction with the Regional Trial Court of Pasig City ("Pasig RTC") against the Company's former directors, Mr. George E. SyCip, Messrs. Jonathan Y. Dee, Alvin Y. Dee and Ibarra A. Malonzo, and then Corporate Secretary, Mr. Avelino M. Sebastian. Ms. Yap-Chua and Mr. Hong sought to nullify, among others, the resolution of the Board dated May 5, 2014 approving the private placement of Strongoak, Inc. of P563,679,956 into the Company, and the issuance of 430,286,226 of the Company's common shares to Strongoak, Inc. pursuant thereto.

The Company moved to intervene in this case. The RTC Pasig denied such intervention. The Company appealed to the Court of Appeals via a Petition for Review dated July 25, 2014. This was docketed as CA G.R. No. 136402.

On May 23, 2014, the judge issued an order stating that "After a careful consideration of the allegations in the Petition with Prayer for Temporary Restraining Order ("TRO") and/or Writ of Preliminary Injunction, this Court finds that the prayer for the TRO does not appear to be of extreme urgency; hence, the same is hereby BYPASSED." The Petition remains pending before the Pasig RTC.

The Complainants filed a Motion for Inhibition, which was granted by Pasig RTC Branch 159. The case was eventually re-raffled to Pasig RTC Branch 161 on March 21, 2016, where it remains pending as of date.

On March 29, 2016, the Company received the CA Decision dated March 14, 2016, granting the Company's Petition to Intervene in the case. Ms. Yap-Chua et al. filed a motion for reconsideration of the said Decision but was subsequently denied also. The Company received on February 2, 2017 the Petition for Review on Certiorari of Hedy Yap-Chua et al. with the Supreme Court. (SC G.R. No. 226182 [CA-GR. SP No. 136402]).

Meanwhile, in the main case pending with the Pasig RTC, proceedings have been suspended by the Pasig RTC on the ground that there are issues related to the instant case that are pending before the higher courts.

3. ***People of the Philippines vs. Jonathan Y. Dee, Marie Grace T. Vera Cruz, George E. SyCip, Antonio C. Pacis and Raymond K.H. See, Criminal Case Nos. M-PSG-18-02275-CR and M-PSG-18-02276-CR***

On February 24, 2015, Ms. Hedy S.C. Yap-Chua filed a Complaint-Affidavit with the Department of Justice ("DOJ") against incumbent Directors Marie Grace T. Vera Cruz, Raymond K.H. See and Antonio C. Pacis, and former directors Mr. Jonathan Y. Dee and George E. SyCip ("Respondents") for alleged violations of the Corporate Code provisions on the right to inspect company records. The Board approved Ms. Yap-Chua's request to inspect company records, subject to a procedure, which includes the signing of Ms. Yap-Chua's representatives to sign non-disclosure agreements, to ensure an orderly inspection and that proprietary information does not become public. However, the respective lawyers of the Company and Ms. Yap-Chua could not come to an agreement on the said procedure for inspection.

At the special meeting of the Board on September 17, 2014 called at the request of Ms. Yap-Chua and specifically to discuss the matter, the Board, by the vote of the Respondents, resolved to direct the lawyers of the Company and of Ms. Yap-Chua to meet face-to-face to resolve their differences regarding said procedure. Ms. Yap-Chua alleged in her Complaint-Affidavit that the procedure proposed by the Company, and the referral of the matter to the lawyers, was tantamount to a denial of her right to inspect company records.

In a Review Resolution dated March 20, 2018, the DOJ resolved the complaint finding probable cause against the Respondents ruling that the procedure prevented the inspection of the books. Respondents Vera Cruz, Pacis, See and SyCip filed their Motions for Reconsideration. While Respondent Dee filed a Petition for Review before the Secretary of Justice of the DOJ.

Acting on the Motions for Reconsiderations filed before the DOJ, the DOJ issued Resolution dated April 12, 2019 granting the motions for reconsiderations of Respondents See and Pacis dismissing the complaint against them. This eventually led to the **dismissal of the cases** against Respondents See and Pacis before MTC Pasig in a Consolidated Order dated June 25, 2019.

In March 2020, the MTC issued an Order **dismissing the case** against Respondents Jonathan Dee, George SyCip and Grace Vera Cruz on the ground of lack of jurisdiction resulting to the amendments introduced by the Revised Corporation Code of the Philippines which became effective in February 2019.

4. ***Harvest All Investment Limited, Victory Fund Limited, Bondeast Private Limited, Albert Hong Hin Kay and Hedy S.C. Yap Chua v. Alliance Select Foods International, Inc., George E. SyCip, Jonathan Y. Dee, Raymund K.H, See, Mary Grace T. Vera-Cruz, Antonio C. Pacis, Erwin M. Elechicon and Barbara Anne C. Migallos, Commercial Cas No. 15-234***

On August 5, 2015, Harvest All Investment Limited, Victory Fund Limited, Bondeast Private Limited, Albert Hong Hin Kay and Hedy S.C. Yap Chua ("Harvest All et al.") filed a Complaint (with application for the issuance of Writ of Preliminary Mandatory Injunction and Temporary Restraining Order/Writ of Preliminary Injunction) with the Pasig Regional Trial Court ("Pasig RTC"), against Alliance Select Foods International, Inc., its then Directors Messrs. George E. SyCip, Jonathan Y. Dee, and current Directors Raymond K.H, See, Mary Grace T. Vera-Cruz, Antonio C. Pacis, and Erwin M. Elechicon and Corporate Secretary Barbara Anne C. Migallos (the "Company") praying, among others, that the Company be restrained from carrying out its Stock Rights Offering, and that the Company be compelled to hold its Annual Stockholders' Meeting prior to the said Stock Rights Offering. The Stock Rights Offering would raise gross proceeds of P1,000,000,000.00 to be used for needed capital expenditures, repayment of loans, installation of a new management information system, and working capital requirements of the Company.

In a Resolution dated August 14, 2015, the Pasig RTC denied the prayer for a Temporary Restraining Order. The Pasig RTC held that Harvest All et al. failed to show that it had a clear and unmistakable right that was or would be violated by the conduct of Annual Stockholders' Meeting after the Stock Rights Offering. The Pasig RTC noted that Temporary Restraining Order is unwarranted because Harvest All et al. were granted the right to subscribe to the Stock Rights Offering to prevent the dilution of shareholdings and voting rights feared by Harvest All et al.

In a Resolution dated 24 August 2015, the Pasig RTC dismissed the Complaint for lack of jurisdiction over the subject matter of the case due to Harvest All et al.'s failure to pay the correct filing fees (the "RTC Resolution").

In the meantime, the offer period for the Stock Rights Offering, which commenced on August 17, 2015, ended on August 26, 2015. On September 7, 2014, the Company's Board scheduled the Company's Annual Stockholders' Meeting on November 17, 2015 with record date on October 20, 2015. The Board of Directors later on decided to reschedule the Annual Stockholders' Meeting to December 16, 2015.

Harvest All et al. filed a Petition for Review with the Court of Appeals to reverse and set aside the RTC Resolution dismissing the Complaint. It also prayed that the Company be restrained from implementing the October 20, 2015 record date of the Annual Stockholders' Meeting, and to compel the Company to set the record date of the Annual Stockholders' Meeting to a date prior to the Stock Rights Offering.

On 15 December 2015, the Court of Appeals issued a Resolution of even date granting Harvest All et al.'s prayer for a Temporary Restraining Order ("TRO"), effective for a period of 60 days from notice, enjoining the parties to maintain and preserve the status quo pending resolution of the Petition for Review, after Harvest All et al. posts the required bond (the "TRO Resolution"). The Court of Appeals issued the TRO the next day, or on 16 December 2015, the date of the Meeting. The Company received the TRO a few hours before said Meeting. The Company and the respondent directors and officers filed motions for reconsideration of the TRO Resolution and to dissolve the TRO.

The Court of Appeals rendered a Decision dated February 15, 2016 sustaining the position of the Company that Harvest All et al., should pay the correct filing fees for its Complaint with the Pasig RTC. Both parties filed their respective Motions for Reconsideration, and both were subsequently denied.

Jonathan Dee filed a Petition for Review on Certiorari with the Supreme Court to set aside the ruling of the Court of Appeals and affirm the ruling of the Pasig RTC dismissing the case (SC G.R. No. 224834).

Harvest All et al. on the other hand filed their only Petition for Review on Certiorari with the Supreme Court questioning the ruling of the Court of Appeals that though the case should not be dismissed because Harvest All et al. was not in bad faith in not filing the proper filing fee, the latter should pay the filing fee based on the 2015 SRO, which would amount to approximately Php 20 Million.

The Petitions for Review on Certiorari were consolidated by the Supreme Court. On March 15, 2017, the Supreme Court rendered a Decision in favor of the petition of Harvest All et al., ruling that the intra-corporate controversies may involve a subject matter which is either capable or incapable of pecuniary estimation, and remanded the case back to the RTC to assess the correct filing fees, and upon payment, to proceed with the regular proceedings of the case. The Company, as well as the other Defendants filed their respective motions for reconsiderations.

The Supreme Court denied the motions for reconsideration with finality and the case was remanded back to the Regional Trial Court of Pasig City, branch 159, under Judge Lingan. Thereafter, the Company filed a Motion for Factual Determination of Mootness, arguing that the cause of action of Plaintiffs is already moot and academic. Defendant Migallos likewise filed a Motion to Dismiss arguing also that the case is already moot and academic.

Plaintiffs however, filed a Motion for Inhibition against Judge Lingan (RTC 159), which said Judge granted. Defendant SyCip filed a Petition for Certiorari and Mandamus with Application for the Issuance of TRO and/or Writ of Preliminary Injunction before the Court of Appeals against Judge Lingan for inhibiting from the case (CA-G.R. SP No. 158324).

Pursuant to the inhibition of Judge Lingan (RTC 159), the case was eventually re-raffled to RTC 265 on April 4, 2019.

The case was referred to mediation on October 18, 2019. The parties underwent mediation until January 2020, but parties failed to enter into a settlement. Pre-Trial Conference was set on March 4, 2020.

On the day of the Pre-Trial Conference, before hearing started, the parties received an Omnibus Order, dated February 20, 2020, issued by RTC 265 **dismissing the case** due to forum shopping and being moot and academic.

5. ***Victory Fund Limited, Harvest All Investment Limited, Bondeast Private Limited and Hedy S.C. Yap Chua vs. Jonathan Y. Dee, Alvin Y. Dee, Joanna Y. Dee-Laurel, George E. SyCip, Teresita S. Ladanga, Grace S. Dogillo, Arak Ratborihan, Raymond K.H. See, Marie Grace T. Vera Cruz, Antonio C. Pacis, and John and Jane Does, NPS Docket No. XVI-INV-16B-01028***

The complainants, Harvest All Investment Limited, Victory Fund Limited, Bondeast Private Limited, and Hedy S.C. Yap Chua ("Complainants") are minority shareholders of Alliance Select Foods International, Inc. ("Company") who allege that the respondents, then Directors and Officers Jonathan Y. Dee, Alvin Y. Dee, Joanna Y. Dee-Laurel, George E. SyCip, Teresita S. Ladanga, Grace S. Dogillo, Arak Ratborihan, and current Directors Raymond K.H. See, Marie Grace T. Vera Cruz, and Antonio C. Pacis, improperly used the Complainants' investments in the Company to engage in supposedly illegal activities and transactions. The complaint also stated that damage and prejudice was caused to the complainants as a result of respondents' actions, which included the alleged diminution of complainants' property rights due to a supposedly deliberate dilution of the Complainants' shareholdings in the Company. The Complainants further asserted that their proportionate rights as shareholders were diminished, such as their entitlement to representation in the Board of Directors of the Company.

The Complainants submitted a Supplement to the Joint Complaint-Affidavit to include the supposed damage incurred by the Complainants when they were not elected to the Board of Directors of the Company during the Annual Stockholders Meeting on 01 March 2016.

Meanwhile, Jonathan Dee, Alvin Dee, Joanna Dee-Laurel, and Tess Ladanga ("Perjury Complainants") filed a complaint for perjury against Yap-Chua, which was consolidated with the above case.

In a Joint Resolution dated July 12, 2016, the Investigating Prosecutor dismissed the complaint for syndicated estafa, falsification of public documents and perjury.

Both Syndicated Estafa and Falsification Complainants and Perjury Complainants filed their respective Petitions for Partial Review with the DOJ.

The DOJ issued a Joint Resolution dated March 31, 2017 denying both petitions for partial review, affirming the dismissal of the complaints.

On Motion for Reconsideration, the DOJ promulgated its March 27, 2018 Resolution **dismissing the charges** of Syndicated Estafa and Falsification of Public Documents against Raymond K.H. See, Marie Grace T. Vera Cruz and Antonio C. Pacis. On the other hand, while likewise dismissing the charge of Syndicated Estafa and Falsification of Public Documents against the rest of the respondents, the DOJ found probable cause for Estafa against Jonathan Y. Dee, Alvin Y. Dee, Joanna Y. Dee-Laurel, George E. SyCip, Teresita S. Ladanga, Grace S. Dogillo, and Arak Ratborihan.

Jonathan Dee, Alvin Dee, Joanna Dee-Laurel, and Teresita Ladanga filed a joint Motion for Partial Reconsideration, while George SyCip filed his separate Motion for Partial Reconsideration before the DOJ, which are pending before the DOJ.

Complainants Hedy et al. filed a Petition for Certiorari before the Court of Appeals alleging that there is grave abuse of discretion on the part of the DOJ in finding probable cause only to a lower charge of simple estafa instead of syndicated estafa and/or dismissing the charge against Raymond See, Grace Vera Cruz and Antonio Pacis, pending before the Court of Appeals (CA-G.R. SP No. 156008). After the parties have filed their Answers, and Replies and other subsequent pleadings, the Court of Appeals has issued a Resolution dated September 24, 2019 submitting the petition for decision.

Meanwhile, informations were filed with the Regional Trial Court of Makati for simple estafa, against former Directors and Officers Jonathan Dee, Alvin Dee, Joanna Dee-Laurel, George SyCip, Teresita Ladanga, Grace Dogillo, Arak Ratborihan, and John and Jane Does, which is pending trial.

**Item 11 – EXECUTIVE COMPENSATION**

Information on the aggregate compensation paid or accrued during the last five fiscal years and to be paid in the ensuing fiscal year to the Parent Company's Chief Executive Officer and four other most highly compensated executive officers follows:

| | Year | Salaries Amounts in ₱'000 | Bonuses/Other Income Amounts in ₱'000 |
|---|---|---|---|
| CEO and the four most highly compensated officers named above | 2015 | ₱ 12,998 | ₱ 268 |
| | 2016 | ₱ 14,885 | ₱ 235 |
| | 2017 | ₱ 14,865 | ₱ 215 |
| | 2018 | ₱ 15,051 | ₱ 2,407 |
| | 2019 | ₱ 16,482 | ₱1,669 |
| | 2020 (est) | ₱17,612 | ₱ 263 |
| Aggregate compensation paid to all officers and directors as a group unnamed | 2015 | ₱ 19,624 | ₱ 393 |
| | 2016 | ₱ 23,360 | ₱ 578 |
| | 2017 | ₱ 19,417 | ₱ 679 |
| | 2018 | ₱ 21,953 | ₱3,951 |
| | 2019 | ₱ 23,181 | ₱ 2,476 |
| | 2020 (est) | ₱ 23,017 | ₱ 1,025 |

The following are the Parent Company's top five (5) compensated executive officers:

| | |
|---|---|
| Raymond K.H. See | President and CEO |
| Ma. Kristina P. Ambrocio | General Counsel, Asst. Corporate Secretary and Compliance Officer |
| Lisa Angela Y. Dejadina | Senior Vice President for Operations |
| Ma Berniefel B. Sarmiento | Supply Chain Optimization Manager |
| Karen Anne G. Ramirez | Group Finance Advisor |

**Compensation of Directors**

Standard Arrangements

Under the amended By-Laws, as compensation, the Board shall receive and allocate an amount of not more than 10% of the Group's EBITDA during the preceding year. Such compensation shall be determined and apportioned among the directors in such manner as the Board may deem proper, subject to the approval of the stockholders representing at least majority of the outstanding capital stock at a regular or special meeting of the stockholders.

At present, there are no arrangements for compensation for Directors. Directors, however, receive reasonable per diem allowances.

**Warrants and Options Outstanding**

There are no outstanding warrants or options held by directors and officers nor are there any adjustments in the exercise price of said warrants or options.

**Item 12 – SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following are the number of Shares representing more than 5% of the Parent Company's issued and outstanding capital stock as of December 31, 2019:

| Title of Class | Name, Address of Record Owner, and Relationship With Issuer | Name of Beneficial Owner and Relationship with Record Owner | Citizenship | Number of Shares Held | % of Class |
|---|---|---|---|---|---|
| Common | PCD Nominee Corporation (Filipino) 37th Fl., Tower One, Enterprise Center, Paseo de Roxas corner Ayala Avenue, Makati City | PCD Nominee Corporation (Filipino) | **Filipino** | 2,021,609,224 | **80.87%** |
| Common | Harvest All Investment Ltd. 4304-43F China Resources Bldg., 26 Harbour Road, Wanchai, Hong Kong | Harvest All Investment Ltd. | **Chinese / Hong Kong** | **177,261,165** | **7.09%** |
| | **Total** | | | **2,198,870,389** | **87.96%** |

**Security ownership of Directors, Officers and Management as of December 31, 2019:**

**Security Ownership of Directors**

| Title of Class | Name of Beneficial Owner | Number of Direct shares | Number of Indirect shares / Through (name of record owner) | Citizenship | % of Capital Stock |
|---|---|---|---|---|---|
| Common | Erwin M. Elechicon | 200 | 0 | Filipino | 0.00% |
| Common | Antonio C Pacis | 400 | 0 | Filipino | 0.00% |
| Common | Joseph Peter Y. Roxas | 100,000 | 356,000/through Eagle Equities, Inc. | Filipino | 0.08% |
| | | | 1,785,000/through Glory Y. Roxas (member of immediate family) – through Eagle Equities, Inc. | | |
| Common | Raymond K. H. See | 5,000 | 10,521/through Asiasec Equities, Inc. | Filipino | 0.00% |
| Common | Gabriel A. Dee | 1,000 | | Filipino | 0.00% |
| Common | Dobbin A. Tan | 10,000 | 0 | Filipino | 0.00% |
| Common | Marie Grace T. Vera Cruz | 400 | 0 | Filipino | 0.00% |
| | TOTAL | 117,000 | 2,151,521 | | 0.08% |

**Security Ownership of Management**

| Title of Class | Name of Beneficial Owner | Number of Direct shares | Number of Indirect shares / Through (name of record owner) | Citizenship | % of Capital Stock |
|---|---|---|---|---|---|
| Common | Raymond K.H. See | 5,000 | 10,521/through Asiasec Equities, Inc. | Filipino | 0.00% |
| - | Lisa Angela Y. Dejadina | 0 | 0 | Filipino | 0.00% |
| - | Barbara Anne C. Migallos | 0 | 0 | Filipino | 0.00% |
| - | Ma. Kristina P. Ambrocio | 0 | 0 | Filipino | 0.00% |
| - | | | | | |
| | TOTAL | 5,000 | 10,521 | | 0.00% |

Voting Trust or Similar Agreements

There are no existing voting trust or similar agreements.

Changes in Control

There are no existing provisions in the amended Articles of Incorporation and amended By-Laws of the Parent Company, which may cause delay, deferment, or in any manner prevent a change in control of the Parent Company.

## Item 13 – CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In the course of its regular business, the Parent company entered into some related party transactions. For details please refer to Note 13 of the attached Notes to the Financial Statements.

# Part IV – CORPORATE GOVERNANCE

## Item 14 – CORPORATE GOVERNANCE

In compliance with SEC Regulations, the Company filed its 2018 Integrated Annual Corporate Governance Report (IACGR) with SEC on May 30, 2019. The Company likewise posted the report on its website on even date. Previously, the Company filed its IACGR on March 30, 2018 and posted the same on the Company's website on even date.

The Company stays faithful to the recommended best practices as far as Corporate Governance standards are concerned. It participates and follows the standards prescribed by the Securities & Exchange Commission (SEC) and the Philippines Stock Exchange (PSE). The Company filed its revised Manual of Corporate Governance (containing revisions as of July 2014) with the SEC on July 31, 2014. It also filed its Consolidated Changes to the Annual Corporate Governance Report on January 14, 2016. Since then, the Company has filed two (2) amendments to the Company's ACGR to reflect the changes made after the Company's stockholders' meeting held on March 01, 2016. All amendments and changes have been posted in the Company's website before the prescribed deadline.

In addition, the Company has been regularly submitting corporate governance surveys as required by the PSE Memorandum 2010-0574 dated November 26, 2010. Since this requirement came into force, the Company has been participating in these surveys and filing it with the Exchange in a timely manner.

On June 1, 2017, in compliance with SEC Memorandum Circular No. 8 Series of 2017, Alliance Select Foods International, Inc. (FOOD) submitted with the SEC its 2017 Corporate Governance Manual. The same was adopted by the Board of Directors of FOOD in a special meeting held on May 30, 2017.

The attendance of the Board members during Board of Directors meetings held in CY 2019 was as follows:

| | 12 Feb | 5 Apr | 7 May | 25 June | 7 Aug | 18 Oct | 23 Oct | 8 Nov | Attendance |
|---|---|---|---|---|---|---|---|---|---|
| Antonio C. Pacis | P | A | A | P | P | P | P | P | 90 |
| Raymond K.H. See | P | P | P | P | P | P | P | P | 100 |
| Marie Grace T. Vera Cruz | P | P | P | P | P | P | P | P | 100 |
| Dobbin A. Tan | P | P | P | P | P | P | P | P | 100 |
| Erwin M. Elechicon | P | P | P | P | P | P | P | P | 100 |

| | 12 Feb | 5 Apr | 7 May | 25 June | 7 Aug | 18 Oct | 23 Oct | 8 Nov | Attendance |
|---|---|---|---|---|---|---|---|---|---|
| Joseph Peter Y. Roxas | P | P | P | P | P | P | P | P | 100 |
| Gabriel A. Dee | A | P | P | P | P | P | P | P | 100 |

P = Present

A = Absent

N = Not a Director

* *There were 8 meetings held during the year 2019.*

Per the Company's Manual on Corporate Governance the Board has taken the lead in following recommended standards of Corporate Governance. To reflect its commitment to set, and maintain, high standards of governance, the Board has set up various Board Committees to guide the attainment of corporate goals. These Committees are:

Audit Committee – The purpose of the Committee is to assist the Board of Directors in fulfilling its oversight responsibilities for the Company's corporate governance processes relating to:

(i) The quality and integrity of the company's financial statements and financial reporting process;

(ii) The adequacy and effectiveness of the Company's internal control systems;

(iii) Compliance with accounting standards, legal and regulatory requirements, including the Company's disclosure policies and procedures;

(iv) Independence and performance of the Company's internal and external auditors;

(v) Evaluation of risk management policies and process.

The Committee is accountable to the Board for its performance and shall prepare the report of the Committee required to be in the Company's annual report.

The Committee's duties and responsibilities include, among others, monitoring the integrity of the financial information provided by the Company, monitoring and assessing the role and effectiveness of the internal audit function, reviewing the external auditors scope of work, reviewing the effectiveness of the system for monitoring compliance with laws and regulations, overseeing interested party transactions, ensuring that the management establishes sound risk management policies and systems and performing any other activities consistent with the committees charter and Company By-Laws etc.

Executive Committee – The primary responsibility of the committee is to act on behalf of the Board on matters that require urgent and prompt action. In cases where the full Board cannot convene, but urgent matters need to be acted upon, the Committee exercises the power of the Board though it is subordinated to and responsible to the full Board at all times.

The committee can act on all matters except change the Company Articles of Incorporation and By-Laws, adopt an agreement on Mergers & Acquisitions, declare dividends or authorize issuance of stock, amend or rescind previous Board resolutions and recommend sale, lease or exchange of corporate property and assets.

The Committee has to report all the actions it takes to the Board.

Corporate Governance Committee – The committee's primary responsibility is to pre-screen and short-list all candidates nominated to become a member of the Board of Directors. It should also define, or re-define, as the case may be, the role, duties and responsibilities of the Chief Executive Officer by integrating the dynamic requirements of the business as a going concern and future expansionary prospects within the realm of good corporate governance at all times.

Its responsibilities also include establishing a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of corporate officers and directors, and provide oversight over remuneration of senior management and other key personnel ensuring that compensation is consistent with the Corporation's culture, strategy and control environment. Moreover, the committee is to designate amount of remuneration to attract and retain competent corporate officers. Also, the committee should establish a formal and transparent procedure for developing a policy on executive remuneration and fixing the remuneration packages of individual directors.

Other committees of the Company include the Board Risk Oversight Committee and Related Party Transactions Committee.

The Company's Compliance Officer constantly monitors and evaluates compliance of the Directors and officers to its Manual on Corporate Governance. The Company has fully complied with the requirements of the Manual on Corporate Governance and the company will continue to take steps, as needed, to improve its corporate governance.

## Part V – EXHIBITS AND SCHEDULES

**Part V – EXHIBITS AND SCHEDULES**

### Item 15 – EXHIBITS AND REPORTS

**(a) Exhibits**

The exhibits indicated in the Index to Exhibits, are either not applicable to the Company or have been previously submitted.

**(b) Reports on SEC Form 17-C**

**LIST OF REPORTS ON SEC FORM 17- C**
**(During the last 6-month period covered by the Annual Report)**

| Date Reported | Subject |
|---|---|
| April 5, 2019 | Approval of FOOD's 2018 Performance and Audited Financial Statements. |
| April 15, 2019 | Press Release: Alliance Select Continues to Soar |
| April 22, 2019 | Clarification on the News Report: "Court orders arrest of SyCip Scion for Estafa." |
| May 7, 2019 | Board Meeting discussed the Financial Highlights for the three months ended March 31, 2019. |
| May 7, 2019 | Setting of the Date of the Annual Stockholders' Meeting |
| May 10, 2019 | Notice of Annual Stockholders' Meeting:<br>Disclosure was amended to include Agenda |
| May 15, 2019 | Press Release: Alliance Select posts $19.6 M Net Revenue; Gears up for Growth in Q1 2019 |

| Date Reported | Subject |
|---|---|
| May 17, 2019 | Notice of Annual Stockholders' Meeting: Disclosure was amended to announce deadline for submission of nomination of directors. |
| June 25, 2019 | Results of 2019 Annual Stockholders' Meeting of FOOD |
| June 25, 2019 | Results of the 2019 Organizational Meeting of the Board of Directors |
| June 25, 2019 | Press Release: Following A Banner Year, Alliance Select re-elects Directors at 2019 Stockholders' Meeting |
| August 7, 2019 | Board Meeting discussed the Financial Highlights for the six months ended June 30, 2019. |
| August 15, 2019 | Press Release: Alliance Select Sets Path for Long Term Growth |
| October 4, 2019 | Change of contact details |
| October 18, 2019 | Board Meeting taking up change of PT International Alliance Food Indonesia's core business operations to export trading, and sale of its fixed assets in North Sulawesi. |
| October 23, 2019 | Board Meeting taking up divestment of 100% equity investment held by FOOD in wholly owned subsidiary Spence & Co. Ltd., in order to re-focus operations to the Asia-Pacific. |
| October 23, 2019 | Press Release: Alliance Select focuses on Philippine and New Zealand operations with sale of US subsidiary and Indonesian assets |
| October 28, 2019 | Reply to Exchange's Query per correspondence dated October 25, 2019: Response to the Philippine Stock Exchange's request for additional information regarding PT International Alliance Food Indonesia's ("PT IAFI"), change in core business from processing to export trading, as well as the sale of PT IAFI's fixed assets to PT Multi Nabati Sulawesi. |
| November 9, 2019 | Board Meeting discussed the Financial Highlights for the nine months ended September 30, 2019. |
| November 9, 2019 | Appointment of Ms. Maria Cristina C. Villaruz as the Company's Assistant Treasurer and Data Protection Officer. |
| November 14, 2019 | Alliance Select sustains long term strategy for growth. |

**EXHIBIT TABLE**

## SECURITIES REGULATION CODE FORMS

| | Description | 17-A | 2014 17-A Filing |
|---|---|---|---|
| 3 | Plan of Acquisition, Reorganization, Arrangement, Liquidation, or Succession | x | N/A |
| 5 | Instruments Defining the Rights of Security Holders, Including Indentures | x | N/A |
| 8 | Voting Trust Agreement | x | N/A |
| 10 | Annual Report to Security Holders, FORM 17-Q or Quarterly Report to Security Holders—n1 | x | Please refer to the First Quarter 17-Q |
| 13 | Letter re: Change in Certifying Accountant--n2 | x | N/A |
| 15 | Letter re: Change in Accounting Principles | x | N/A |
| 16 | Report Furnished to Security Holders | x | Please refer to First Quarter 17Q |
| 18 | Subsidiaries of the Registrant | x | Please refer to latest Amended General Information Sheet, with corresponding jurisdiction of incorporation |
| 19 | Published Report Regarding Matters Submitted to Vote of Security Holders | x | N/A |
| 20 | Consents of Experts and Independent Counsel | x-n3 | N/A |
| 21 | (a) Power of Attorney<br>(b) Power of Attorney—Foreign Registrant | x | N/A |
| 29 | Additional Exhibits | x | Consolidated 2014 ACGR, pursuant to SEC Advisory dated 12 March 2015 |

n1 In the case of SEC Form 17-A, where the annual report to security holders is incorporated by reference into the text of FORM 17-A. Note: SRC Rule 12.2 prohibits information from being incorporated by reference to the prospectus.

n2 If required pursuant to Part III, paragraph B(3) of this Annex C.

n3 Where the opinion of the expert or independent counsel has been incorporated by reference to a previously filed SEC Form 12-1 registration statement.

## SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the Issuer by the undersigned thereunto duly authorized.

By:

RAYMOND K.H. SEE
President and CEO

LISA ANGELA Y. DEJADINA
Senior Vice President of Group Operations

MA. KRISTINA P. AMBROCIO
VP Legal and Compliance Officer

**REPUBLIC OF THE PHILIPPINES )**
**PASIG CITY )S.S.**

SUBSCRIBED AND SWORN to before me, in Pasig City, on June 10, 2020, the affiants exhibiting to me their government issued identifications as follows:

| **NAME** | **Government issued ID** | |
|---|---|---|
| Raymond K.H. See | Passport No. P2678380B | Valid until July 29, 2029 |
| Lisa Angela Y. Dejadina | Passport No. P1427002A | Valid until December 29, 2021 |
| Ma. Kristina P. Ambrocio | Integrated Bar of the Philippines | Roll of Attorneys No. 52615 |

WITNESS MY HAND AND SEAL, this June 10, 2020, at Pasig City.

Notary Public

ATTY. GINO MARCO P. BAUTISTA
Notary Public for Pasig, San Juan, and Pateros
Commission No. 106 (2020-2021)
Until December 31, 2021
3104 A, West Tower, Phil. Stock Exchange Centre,
Exchange Road, Ortigas Center, Pasig City
PTR No. 6533463/1-17-2020/Pasig City
IBP No. 097335/12-12-2019/Quezon City
Roll of Attorneys No. 58507
MCLE Compliance No. VI-0025935; 4-29-2019

GINO MARCO P. BAUTISTA
PASIG
SAN JUAN
PATEROS
PHILS.
ROLL NO. 58507

Doc No. : 452;
Page No.: 92;
Book No.: I;
Series of 2020.

# COVER SHEET
## for
## AUDITED FINANCIAL STATEMENTS

SEC Registration Number

| C | S | 2 | 0 | 0 | 3 | 1 | 9 | 1 | 3 | 8 |
|---|---|---|---|---|---|---|---|---|---|---|

**COMPANY NAME**

ALLIANCE SELECT FOODS INTERNATIONAL, INC. AND SUBSIDIARIES (A Subsidiary of STRONGOAK INC.)

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

Suite 3104A, West Tower, Philippine Stock Exchange Centre, Exchange Road, Ortigas Avenue, Pasig City

| Form Type | Department requiring the report | Secondary License Type, If Applicable |
|---|---|---|
| ACFS | CRMD | N/A |

**COMPANY INFORMATION**

| Company's Email Address | Company's Telephone Number/s | Mobile Number |
|---|---|---|
| info@allianceselectfoods.com | (02) 7-747-3798 | – |

| No. of Stockholders | Annual Meeting (Month / Day) | Fiscal Year (Month / Day) |
|---|---|---|
| 238 | June 15 | December 31 |

**CONTACT PERSON INFORMATION**

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

| Name of Contact Person | Email Address | Telephone Number/s | Mobile Number |
|---|---|---|---|
| Mr. Raymond K.H. See | info@allianceselectfoods.com | (02) 7-747-3798 | – |

**CONTACT PERSON'S ADDRESS**

Suite 3104A, West Tower, Philippine Stock Exchange Centre, Exchange Road, Ortigas Avenue, Pasig City

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

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

REYES TACANDONG & CO.
FIRM PRINCIPLES. WISE SOLUTIONS.

BOA/PRC Accreditation No. 4782
October 4, 2018, valid until August 15, 2021
SEC Accreditation No. 0207-FR-3 (Group A)
August 29, 2019, valid until August 28, 2022

Citibank Tower
8741 Paseo de Roxas
Makati City 1226 Philippines
Phone : +632 8 982 9100
Fax : +632 8 982 9111
Website : www.reyestacandong.com

**INDEPENDENT AUDITORS' REPORT**

The Stockholders and the Board of Directors
Alliance Select Foods International, Inc.
Suite 3104A, West Tower
Philippine Stock Exchange Centre
Exchange Road, Ortigas Avenue, Pasig City

*Opinion*

We have audited the accompanying consolidated financial statements of Alliance Select Foods International, Inc. (a subsidiary of Strongoak Inc.) and Subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2019, 2018 and 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2019, 2018 and 2017, in accordance with Philippine Financial Reporting Standards (PFRS).

*Basis for Opinion*

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

*Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<u>Valuation of Inventories</u>
Inventories are initially measured at cost and subsequently valued at the lower of cost and net realizable value (NRV). Determination of the NRV of inventories involves significant judgment and is affected by volatility of the price in the market. Total inventories of the Group of $12.66 million represent 19% of the total consolidated assets as at December 31, 2019. Our audit procedures included an assessment of the Group's measurement of the inventories' NRV and identification of damaged and obsolete items. We also focused on the adequacy of the Group's disclosures in accordance with PAS 2, *Inventories*. The Group's disclosures are included in Notes 2, 3 and 7 to the consolidated financial statements.

Accounting for Disposal and Deconsolidation of a Subsidiary

As disclosed in Note 4 to the consolidated financial statements, the Group has disposed its wholly owned subsidiary, Spence & Co. Ltd. (Spence) for a total consideration of $10.22 million. The accounting for disposal and deconsolidation of Spence is significant to our audit because the disposal resulted in a loss of $2.42 million representing 47% of the total consolidated net loss and a decrease of 78% on goodwill. Our audit procedures included, among others, the review of significant terms and agreements, review of management's computation of loss on disposal, and understanding of the Group's consolidation process for determining the balances for deconsolidation at the time of disposal of a subsidiary. We also focused on the adequacy of the Group's disclosures in accordance with PFRS 10, *Consolidated Financial Statements*. The Group's disclosures are included in Notes 2, 3, 4 and 19 to the consolidated financial statements.

*Emphasis of Matter – Events after the Reporting Period*

We draw attention to Note 29 to the consolidated financial statements which describes the uncertainty related to the impact of the novel coronavirus ("COVID-19") pandemic to the Group's financial position and results of operations as at and for the year ending December 31, 2020. Notwithstanding the situation, management believes that the Group can continue as a going concern given the essential nature of its business and its ability to obtain short-term and long-term funding. Our opinion is not modified in respect of this matter.

*Other Information*

Management is responsible for the other information. The other information comprises the information included in SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019, but does not include the consolidated financial statements and our auditors' report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019 are expected to be made available to us after the date of this auditors' report.

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

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

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

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

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

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

*Auditors' Responsibilities for the Audit of the Consolidated Financial Statements*

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements including disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditors' report is Emmanuel V. Clarino.

**REYES TACANDONG & CO.**

EMMANUEL V. CLARINO
Partner
CPA Certificate No. 27455
Tax Identification No. 102-084-004-000
BOA Accreditation No. 4782; Valid until August 15, 2021
SEC Accreditation No. 27455-SEC Group A
Valid until January 27, 2025
BIR Accreditation No. 08-005144-005-2019
Valid until October 16, 2022
PTR No. 8116470
Issued January 6, 2020, Makati City

June 10, 2020
Makati City, Metro Manila

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of **ALLIANCE SELECT FOODS INTERNATIONAL, INC. and SUBSIDIARIES** is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein for the years ended December 31, 2019 and 2018, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors is responsible in overseeing the Group's financial reporting process.

The Board of Directors reviews and approves the consolidated financial statements including the schedules attached therein, and submits the same to the stockholders.

**Reyes Tacandong & Co.**, the independent auditor appointed by the stockholders, has audited the consolidated financial statements of the Group in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

**ANTONIO C. PACIS**
Chairman of the Board

**RAYMOND K.H. SEE**
President and Chief Executive Officer

**MA. CRISTINA C. VILLARUZ**
Group Controller

Signed this 10th day of June 2020

**REPUBLIC OF THE PHILIPPINES )**
**PASIG CITY )S.S.**

SUBSCRIBED AND SWORN to before me, in Pasig City, on June 10, 2020, the affiants exhibiting to me their government issued identifications as follows:

| NAME | Government issued ID | |
|---|---|---|
| Antonio C. Pacis | Passport No. P4501467B | Valid until January 22, 2030 |
| Raymond K.H. See | Passport No. P2678380B | Valid until July 29, 2029 |
| Ma. Cristina C. Villaruz | Passport No. P3443139A | Valid until June 20, 2022 |

WITNESS MY HAND AND SEAL, this June 10, 2020, at Pasig City.

Notary Public

ATTY. GINO MARCO P. BAUTISTA
Notary Public for Pasig, San Juan, and Pateros
Commission No. 106 (2020-2021)
Until December 31, 2021
3104 A, West Tower, Phil. Stock Exchange Centre,
Exchange Road, Ortigas Center, Pasig City
PTR No. 6533463/1-17-2020/Pasig City
IBP No. 097335/12-12-2019/Quezon City
Roll of Attorneys No. 58507
MCLE Compliance No. VI-0025935; 4-29-2019

Doc No. : 451
Page No.: 92
Book No.: I
Series of 2020.

GINO MARCO P. BAUTISTA
PASIG
SAN JUAN
PATEROS
PHILS.
ROLL NO. 58507

## ALLIANCE SELECT FOODS INTERNATIONAL, INC. AND SUBSIDIARIES

**(A Subsidiary of Strongoak Inc.)**

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | Note | December 31 2019 | 2018 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | 5 | **$1,871,461** | $7,012,332 |
| Trade and other receivables | 6 | **12,113,532** | 11,848,595 |
| Inventories | 7 | **12,659,074** | 13,945,762 |
| Other current assets | 8 | **10,141,102** | 8,154,691 |
| Total Current Assets | | **36,785,169** | 40,961,380 |
| **Noncurrent Assets** | | | |
| Property, plant and equipment | 9 | **16,275,207** | 15,486,050 |
| Right-of-use (ROU) assets | 22 | **4,023,998** | – |
| Goodwill | 4 | **2,050,639** | 9,502,585 |
| Deferred tax assets | 24 | **7,888,015** | 9,433,423 |
| Other noncurrent assets | 10 | **784,984** | 1,655,214 |
| Total Noncurrent Assets | | **31,022,843** | 36,077,272 |
| | | **$67,808,012** | $77,038,652 |
| LIABILITIES AND EQUITY | | | |
| **Current Liabilities** | | | |
| Trade and other payables | 11 | **$6,182,702** | $9,139,758 |
| Loans payable | 12 | **22,343,674** | 30,917,296 |
| Current portion of lease liabilities | 22 | **159,766** | – |
| Income tax payable | 24 | **23,170** | 186,662 |
| Total Current Liabilities | | **28,709,312** | 40,243,716 |
| **Noncurrent Liabilities** | | | |
| Due to related parties | 13 | **2,000,000** | 91,530 |
| Loans payable - net of current portion | 12 | **1,594,343** | 46,989 |
| Lease liabilities - net of current portion | 22 | **3,899,914** | – |
| Net retirement benefits obligation | 14 | **287,475** | 223,134 |
| Deferred tax liabilities | 24 | **17,208** | 142,544 |
| Total Noncurrent Liabilities | | **7,798,940** | 504,197 |
| Total Liabilities | | **36,508,252** | 40,747,913 |
| **Equity** | | | |
| Capital stock | 15 | **26,823,389** | 26,823,389 |
| Additional paid-in capital (APIC) | | **1,486,546** | 1,486,546 |
| Retained earnings | | **4,202,949** | 9,291,312 |
| Other comprehensive income | | **1,028,315** | 960,207 |
| | | **33,541,199** | 38,561,454 |
| Treasury shares | 15 | **(5,774)** | (5,774) |
| Equity attributable to equity holders of the Parent Company | | **33,535,425** | 38,555,680 |
| Non-controlling interests | | **(2,235,665)** | (2,264,941) |
| Total Equity | | **31,299,760** | 36,290,739 |
| | | **$67,808,012** | $77,038,652 |

*See accompanying Notes to Consolidated Financial Statements.*

## ALLIANCE SELECT FOODS INTERNATIONAL, INC. AND SUBSIDIARIES
**(A Subsidiary of Strongoak Inc.)**

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | | Years Ended December 31 | | |
|---|---|---|---|---|
| | Note | **2019** | 2018 | 2017 |
| **NET REVENUE** | 16 | **$84,882,803** | $97,133,736 | $72,191,578 |
| **COST OF GOODS SOLD** | 17 | **(76,705,419)** | (84,793,734) | (62,742,916) |
| **GROSS PROFIT** | | **8,177,384** | 12,340,002 | 9,448,662 |
| **SELLING AND ADMINISTRATIVE EXPENSES** | 18 | **(8,563,943)** | (7,341,396) | (8,117,124) |
| **INTEREST EXPENSE** | 12, 13, 22 | **(2,035,297)** | (1,504,254) | (787,547) |
| **OTHER INCOME (CHARGES)** - Net | 19 | **(1,132,215)** | (546) | 18,527 |
| **INCOME (LOSS) BEFORE INCOME TAX** | | **(3,554,071)** | 3,493,806 | 562,518 |
| **INCOME TAX EXPENSE (BENEFIT)** | 24 | **1,577,802** | 890,657 | (1,000,534) |
| **NET INCOME (LOSS)** | | **(5,131,873)** | 2,603,149 | 1,563,052 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | | |
| *Item that will be reclassified subsequently to profit or loss* | | | | |
| Exchange differences on translation of foreign operations | | **68,108** | (5,028) | (15,850) |
| *Item that will not be reclassified subsequently to profit or loss* | | | | |
| Remeasurement gain on retirement benefits, net of tax | 14 | **–** | 32,086 | – |
| | | **68,108** | 27,058 | (15,850) |
| **TOTAL COMPREHENSIVE INCOME (LOSS)** | | **($5,063,765)** | $2,630,207 | $1,547,202 |
| **NET INCOME (LOSS) ATTRIBUTABLE TO:** | | | | |
| Equity holders of the Parent Company | | **($5,084,520)** | $2,524,265 | $1,437,271 |
| Non-controlling interests | | **(47,353)** | 78,884 | 125,781 |
| | | **($5,131,873)** | $2,603,149 | $1,563,052 |
| **TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:** | | | | |
| Equity holders of the Parent Company | | **($5,093,041)** | $2,579,289 | $1,392,332 |
| Non-controlling interests | | **29,276** | 50,918 | 154,870 |
| | | **($5,063,765)** | $2,630,207 | $1,547,202 |
| **INCOME (LOSS) PER SHARE** | | | | |
| Basic and diluted income (loss) per share | 21 | **($0.0020)** | $0.0010 | $0.0006 |

*See accompanying Notes to Consolidated Financial Statements.*

## ALLIANCE SELECT FOODS INTERNATIONAL, INC. AND SUBSIDIARIES

**(A Subsidiary of Strongoak Inc.)**

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| | | Years Ended December 31 | | |
|---|---|---|---|---|
| | Note | **2019** | 2018 | 2017 |
| **EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY** | | | | |
| **Capital Stock** | 15 | | | |
| Balance at beginning of year | | **$26,823,389** | $53,646,778 | $53,646,778 |
| Effect of equity restructuring | | **–** | (26,823,389) | – |
| Balance at end of year | | **26,823,389** | 26,823,389 | 53,646,778 |
| **APIC** | | | | |
| Balance at beginning of year | | **1,486,546** | 6,662,001 | 6,662,001 |
| Effect of equity restructuring | 15 | **–** | 26,823,389 | – |
| Application of APIC against deficit | 15 | **–** | (31,998,844) | – |
| Balance at end of year | | **1,486,546** | 1,486,546 | 6,662,001 |
| **Retained Earnings (Deficit)** | | | | |
| Balance at beginning of year | | **9,291,312** | (25,231,797) | (26,669,068) |
| Effect of adoption of PFRS 16, net of tax effect | 2 | **(3,843)** | – | – |
| Balance at beginning of year, as restated | | **9,287,469** | (25,231,797) | (26,669,068) |
| Net income (loss) | | **(5,084,520)** | 2,524,265 | 1,437,271 |
| Application of APIC against deficit | 15 | **–** | 31,998,844 | – |
| Balance at end of year | | **4,202,949** | 9,291,312 | (25,231,797) |
| **Other Comprehensive Income** | | | | |
| *Item that will not be reclassified subsequently to profit or loss* | 14 | | | |
| *Cumulative Remeasurement Gains on Retirement Benefits Obligation* | | | | |
| Balance at beginning of year | | **87,276** | 55,190 | 55,190 |
| Remeasurement gain on retirement | | **–** | 32,086 | – |
| Balance at end of year | | **87,276** | 87,276 | 55,190 |
| *Revaluation Reserves* | | | | |
| Balance at beginning and end of year | | **275** | 275 | 275 |
| *Item that will be reclassified subsequently to profit or loss* | | | | |
| *Cumulative Translation Adjustment* | | | | |
| Balance at beginning of year | | **872,656** | 877,684 | 893,534 |
| Exchange differences on foreign currency translation | | **68,108** | (5,028) | (15,850) |
| Balance at end of year | | **940,764** | 872,656 | 877,684 |
| Total balance at end of year of other comprehensive income | | **1,028,315** | 960,207 | 933,149 |
| **Treasury Shares** | 15 | **(5,774)** | (5,774) | (5,774) |
| **NON-CONTROLLING INTERESTS** | | | | |
| Balance at beginning of year | | **(2,264,941)** | (2,315,859) | (2,470,729) |
| Total comprehensive income attributable to non-controlling interests | | **29,276** | 50,918 | 154,870 |
| Balance at end of year | | **(2,235,665)** | (2,264,941) | (2,315,859) |
| | | **$31,299,760** | $36,290,739 | $33,688,498 |

*See accompanying Notes to Consolidated Financial Statements.*

## ALLIANCE SELECT FOODS INTERNATIONAL, INC. AND SUBSIDIARIES

**(A Subsidiary of Strongoak Inc.)**

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | | Years Ended December 31 | | |
|---|---|---|---|---|
| | Note | **2019** | 2018 | 2017 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Income (loss) before income tax | | **($3,554,071)** | $3,493,806 | $562,518 |
| Adjustments for: | | | | |
| Loss on disposal of a subsidiary | 4 | **2,422,707** | – | – |
| Interest expense | 12, 13, 22 | **2,035,297** | 1,504,254 | 787,547 |
| Depreciation and amortization | 9 | **1,158,583** | 1,074,993 | 1,150,597 |
| Gain on disposal/retirement of property, plant and equipment | 9 | **(1,072,550)** | (1,338) | (58,618) |
| Provision for impairment losses | 18 | **949,078** | 289,488 | 1,390,754 |
| Reversal of allowance for impairment losses | 7 | **(652,754)** | (804,482) | (1,416,172) |
| Unrealized foreign exchange loss - net | | **(269,603)** | (348,675) | (46,264) |
| Retirement benefits expense | 14 | **93,001** | 52,595 | 50,302 |
| Interest income | 5, 6 | **(75,099)** | (65,426) | (70,965) |
| Equity in net income of an associate | 10 | **4,853** | (3,461) | (26,081) |
| Operating income before working capital changes | | **1,039,442** | 5,191,754 | 2,323,618 |
| Decrease (increase) in: | | | | |
| Trade and other receivables | | **(5,866,119)** | (2,514,362) | (2,758,899) |
| Inventories | | **339,582** | 804,103 | (5,015,714) |
| Other current assets | | **(2,040,006)** | (2,542,467) | (4,143,844) |
| Other noncurrent assets | | **699,529** | (75,100) | (25,425) |
| Increase (decrease) in trade and other payables | | **(1,447,288)** | (358,824) | 3,329,733 |
| Net cash generated from (used for) operations | | **(7,274,860)** | 505,104 | (6,290,531) |
| Income tax paid | | **(295,374)** | (349,013) | (507,877) |
| Interest received | | **75,099** | 65,426 | 70,965 |
| Net cash flows from operating activities | | **(7,495,135)** | 221,517 | (6,727,443) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Proceeds from sale of: | | | | |
| Investment in a subsidiary | 4 | **10,224,940** | – | – |
| Property, plant and equipment | | **2,226,080** | 24,387 | 88,116 |
| Additions to property, plant and equipment | 9 | **(2,853,672)** | (421,342) | (1,334,114) |
| Net cash flows from investing activities | | **$9,597,348** | ($396,955) | ($1,245,998) |

(Forward)

| | Note | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| | | **Years Ended December 31** | | |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Payments of: | | | | |
| Loans payable | 28 | **($67,769,210)** | ($41,805,631) | ($25,684,118) |
| Interest | 28 | **(2,000,843)** | (1,771,551) | (442,314) |
| Lease liabilities | 22 | **(188,704)** | – | – |
| Due to related parties | 28 | **(91,530)** | (2,050,980) | – |
| Proceeds from availment of loans | 28 | **60,742,942** | 48,426,236 | 29,164,744 |
| Advances from related parties | 28 | **2,000,000** | – | 2,006,398 |
| Net cash flows from financing activities | | **(7,307,345)** | 2,798,074 | 5,044,710 |
| **EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS** | | **64,261** | (37,782) | (40,134) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | | **(5,140,871)** | 2,584,854 | (2,968,865) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | | **7,012,332** | 4,427,478 | 7,396,343 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | 5 | **$1,871,461** | $7,012,332 | $4,427,478 |

| | Note | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| **COMPONENTS OF CASH AND CASH EQUIVALENTS** | 5 | | | |
| Cash on hand | | **$14,484** | $6,706 | $4,029 |
| Cash in banks | | **1,856,977** | 7,000,668 | 4,415,573 |
| Cash equivalents | | **–** | 4,958 | 7,876 |
| | | **$1,871,461** | $7,012,332 | $4,427,478 |

| | Note | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| **SUPPLEMENTARY INFORMATION ON NONCASH ACTIVITIES** | | | | |
| Recognition of: | 22 | | | |
| ROU assets | | **$4,157,391** | $– | $– |
| Lease liabilities | | **4,148,900** | – | – |
| Application of APIC against deficit as a result of equity restructuring | 15 | **–** | 31,998,844 | – |

*See accompanying Notes to Consolidated Financial Statements.*

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. **Corporate Information**

**General Information**

Alliance Select Foods International, Inc. (ASFII or the "Parent Company"), a public corporation under Section 17.2 of the Securities Regulation Code (SRC), was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on September 1, 2003. The Parent Company is primarily engaged in the business of manufacturing, canning, importing and exporting of food products such as marine, aquaculture and other processed seafoods. Its shares are listed in the Philippine Stock Exchange (PSE) since November 8, 2006.

Strongoak Inc. (Strongoak), the immediate parent of ASFII, owns 55.32% of ASFII. Strongoak is a domestic company engaged in investment activities.

In August 2018, the Parent Company notified the SEC for the change in its registered office address and principal place of business to Suite 3104A, West Tower, Philippine Stock Exchange Centre, Exchange Road, Ortigas Avenue, Pasig City. The Parent Company has a plant located in General Santos City, Philippines.

**Subsidiaries**

The consolidated financial statements include the accounts of ASFII and the following subsidiaries (collectively referred herein as the "Group") as at December 31, 2019 and 2018:

| Name of Subsidiary | % of Ownership 2019 | 2018 | Nature of Business | Principal Place of Business |
|---|---|---|---|---|
| Big Glory Bay Salmon and Seafood Company, Inc. (BGB) | **100** | 100 | Salmon and other seafoods processing | Philippines |
| PT International Alliance Food Indonesia (PT IAFI)* | **99.98** | 99.98 | Export trading | Indonesia |
| Alliance MHI Properties, Inc. (AMHI) | **98.89** | 98.89 | Leasing | Philippines |
| Akaroa Salmon (NZ) Ltd. (Akaroa) | **80** | 80 | Salmon farming and processing | New Zealand |
| PT Van De Zee (PT VDZ) | **49** | 49 | Fishing | Indonesia |
| ASFI Thailand** | **–** | 100 | Sales office | Thailand |
| Spence & Company Ltd. (Spence)*** | **–** | 100 | Salmon and other seafoods processing | United States of America (USA) |

**In 2019, PT IAFI changed its nature of business from canned fish processing*
***Closed in 2019*
****Divested in 2019 (see Note 4)*

*BGB.* BGB has plant facilities that are located in Barrio Tambler, General Santos City.

*PT IAFI and PT VDZ.* PT IAFI was established under the Indonesian Foreign Capital Investment Law. In October 2019, the plant and machinery of PT IAFI was sold to an Indonesian entity.

PT IAFI owns 49% of PT VDZ, a fishing company. PT VDZ ceased operations in 2016.

*Akaroa.* Akaroa holds 25% stake in Salmon Smolt NZ Ltd. (SSNZ), an entity operating a modern hatchery, which quarantines and consistently supplies high quality smolts (juvenile salmon) for Akaroa's farm.

**Approval of Consolidated Financial Statements**

The consolidated financial statements were approved and authorized for issuance by the Board of Directors (BOD) on June 10, 2020.

## 2. Summary of Significant Accounting and Reporting Policies

The significant accounting policies used in the preparation of the consolidated financial statements have been consistently applied to all the years presented, unless otherwise stated.

### Basis of Preparation and Statement of Compliance

The consolidated financial statements have been prepared on a going concern basis and in accordance with Philippine Financial Reporting Standards (PFRS). This financial reporting framework includes all applicable PFRS, Philippine Accounting Standards (PAS), and Philippine Interpretations from the International Financial Reporting Interpretations Committee (IFRIC) and adopted by the SEC.

The consolidated financial statements comprise the consolidated statements of financial position, consolidated statements of comprehensive income, consolidated statements of changes in equity, consolidated statements of cash flows, and notes thereto. Income and expenses, excluding the components of other comprehensive income, are recognized in the statements of comprehensive income. Reclassification adjustments are amounts reclassified to profit or loss in the current period that were recognized in other comprehensive income in the current or previous periods. Transactions with the owners of the Group in their capacity as owners are recognized in the consolidated statements of changes in equity.

### Bases of Measurement

The consolidated financial statements are presented in United States (U.S.) Dollar, the functional currency of the primary economic environment in which the Parent Company operates. All values are rounded to the nearest U.S. Dollar, except when otherwise stated.

The consolidated financial statements have been prepared on a historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for an asset and fair value of the consideration received in exchange for incurring a liability.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Group uses observable market data to the extent possible when measuring the fair value of an asset or a liability.

Fair values are categorized into different levels in a fair value hierarchy based on inputs used in the valuation techniques as follows:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities

- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in Note 25 to the consolidated financial statements.

**Adoption of New and Amended PFRS**

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new and amended standards which the Group adopted effective January 1, 2019:

- PFRS 16, *Leases* – PFRS 16 replaced PAS 17 *Leases*, Philippine Interpretation on IFRIC 4, *Determining whether an Arrangement contains a Lease*, SIC-15, *Operating Leases-Incentives*, and SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases (i.e., leases with a lease term of 12 months or less).

  At the commencement date of a lease, a lessee will recognize a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Lessees will be required to recognize the interest on the lease liability and to amortize the ROU asset.

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

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

  The Group has adopted PFRS 16 using the modified retrospective method, which requires that the cumulative effect of applying the new standard is recognized at the beginning of the year of initial application. Accordingly, the comparative information presented for 2018 and 2017 have not been restated.

  The Group recognized ROU assets and lease liabilities for property leases on its office and plant. The lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at January 1, 2019. The incremental borrowing rates applied to the lease liabilities range from 3.00% to 9.54% depending on the lease term.

  The Group also elected to apply the recognition exemption on the Group's leases of vehicles, forklifts, container van and warehouse which are either categorized as low-value assets or short-term leases. The related lease expenses on these lease agreements are recognized in the profit or loss on a straight-line basis.

The Group's operating lease commitments as at December 31, 2018 are reconciled to the recognized lease liabilities as at January 1, 2019 as follows:

| | |
|---|---|
| Operating lease commitments at as December 31, 2018 | $471,167 |
| Effect of discounting using incremental borrowing rate | (73,821) |
| Lease liabilities as at January 1, 2019 | $397,346 |

The following table summarizes the ROU assets and lease liabilities recognized as at January 1, 2019:

| | |
|---|---|
| Plant | $218,478 |
| Office | 187,359 |
| Total ROU assets | $405,837 |
| | |
| Current portion of lease liabilities, net of prepaid rent of $13,979 | $83,869 |
| Noncurrent portion of lease liabilities | 313,477 |
| Total lease liabilities | $397,346 |

Deferred tax asset and adjustment to opening retained earnings recognized as at January 1, 2019 amounted to $1,645 and $3,843, respectively.

- Philippine Interpretation on IFRIC 23, *Uncertainty Over Income Tax Treatments* – The interpretation provides guidance on how to reflect the effects of uncertainty in accounting for income taxes under PAS 12, *Income Taxes,* in particular (i) whether uncertain tax treatments should be considered separately, (ii) assumptions for taxation authorities' examinations, (iii) determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, and (iv) effect of changes in facts and circumstances.

- Amendments to PFRS 9, *Financial Instruments – Prepayment Features with Negative Compensation* – The amendments clarify that a financial asset passes the "solely payments of principal and interest" criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. Consequently, financial assets with termination provisions can now be measured at amortized cost (or, depending on the business model, at fair value through other comprehensive income).

- Amendments to PAS 19, *Employee Benefits - Plan Amendment, Curtailment or Settlement* – The amendments specify how companies remeasure a defined benefit plan when a change - an amendment, curtailment or settlement - to a plan takes place during a reporting period. It requires entities to use the updated assumptions from this remeasurement to determine current service cost and net interest cost for the remainder of the reporting period after the change to the plan.

- Amendments to PAS 28, *Investments in Associates and Joint Ventures - Long-term Interests in Associates and Joint Ventures* – The amendments require entities to use PFRS 9 in accounting for its long-term interests (i.e., preference shares and long-term receivables or loans for which settlement is neither planned nor likely to occur in the foreseeable future) in an associate or joint venture in which the equity method under PAS 28 is not applied. The clarification is relevant because the expected credit loss (ECL) model under PFRS 9 shall be applied to these long-term interests.

Under prevailing circumstances, the adoption of the foregoing new and amended PFRS, except for PFRS 16, did not have material effect on the consolidated financial statements of the Group. Additional disclosures were included in the consolidated financial statements, as applicable.

**Amended PFRS Issued But Not Yet Effective**

Relevant amended PFRS, which are not yet effective as at December 31, 2019 and have not been applied in preparing the consolidated financial statements, are summarized below.

Effective for annual periods beginning on or after January 1, 2020:

- Amendments to References to the Conceptual Framework in PFRS – The amendments include a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance-in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurements uncertainty in financial reporting. The amendments should be applied retrospectively unless retrospective application would be impracticable or involve undue cost or effort.

- Amendments to PFRS 3 - *Definition of a Business* – This amendment provides a new definition of a "business" which emphasizes that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. To be considered a business, 'an integrated set of activities and assets' must now include 'an input and a substantive process that together significantly contribute to the ability to create an output. The distinction is important because an acquirer may recognize goodwill (or a bargain purchase) when acquiring a business but not a group of assets. An optional simplified assessment (the concentration test) has been introduced to help companies determine whether an acquisition is of a business or a group of assets.

- Amendments to PAS 1, *Presentation of Financial Statements* and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Material* – The amendments clarify the definition of "material" and how it should be applied by companies in making materiality judgments. The amendments ensure that the new definition is consistent across all PFRS. Based on the new definition, an information is "material" if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

Deferred effectivity -

- Amendment to PFRS 10, *Consolidated Financial Statements* and PAS 28 - *Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture* – The amendments address a current conflict between the two standards and clarify that a gain or loss should be recognized fully when the transaction involves a business, and partially if it involves assets that do not constitute a business. The effective date of the amendments, initially set for annual periods beginning on or after January 1, 2016, was deferred indefinitely in December 2015 but earlier application is still permitted.

Under prevailing circumstances, the adoption of the foregoing amended PFRS is not expected to have any material effect on the consolidated financial statements of the Group. Additional disclosures will be included in the notes to consolidated financial statements, as applicable.

**Basis of Consolidation**

*Subsidiaries.* Subsidiaries are entities in which the Group has control. The Group controls a subsidiary if it is exposed or has rights to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. Control is generally accompanied by a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are substantive are considered when assessing whether the Group controls an entity. The Group reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of control.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date when the Group obtains control and continue to be consolidated until the date when such control ceases. The results of operations of the subsidiaries acquired or disposed are included in the consolidated statement of comprehensive income from the date of acquisition or up to the date of disposal, as appropriate.

The financial statements of the subsidiaries are prepared using the same reporting period of the Parent Company. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. Intercompany balances and transactions, including intercompany profits and unrealized profits and losses, are eliminated in full.

A change in ownership interest of a subsidiary, without a change in control, is accounted for as an equity transaction. Upon the loss of control, the Group derecognizes the assets (including goodwill) and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Gain or loss arising from the loss of control is recognized in profit or loss. If the Group retains interest in the previous subsidiary, then such interest is measured at fair value at the date control is lost. Subsequently, it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of interest retained.

*Non-controlling Interests.* Non-controlling interests represent the portion of profit or loss and net assets not held by the Group, presented within equity in the consolidated statement of financial position, separately from equity attributable to equity holders of the Parent Company. Non-controlling interests represent the interests of minority shareholders of PT IAFI, PT VDZ, Akaroa and AMHI.

**Business Combination and Goodwill**

Acquisitions of businesses are accounted for using the acquisition method. The acquisition cost is measured as the sum of the considerations transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in general and administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

When the business combination is achieved in stages, any previously held non-controlling interest is re-measured at the date of obtaining control and a gain or loss is recognized in profit or loss.

If the initial accounting for a business combination is incomplete as at the reporting date in which the combination occurs, the Group reports in its consolidated financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the Group retrospectively adjusts the provisional amounts and recognizes additional assets or liabilities to reflect new information obtained about facts and circumstances that existed as of the acquisition date. The measurement period ends at the date the Group receives the information about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable, but should not exceed one year from the acquisition date.

Goodwill, which arose from the acquisition of Akaroa and Spence ($9.50 million) in 2012, is initially measured at the acquisition date as the sum of the fair value of consideration transferred; the recognized amount of any non-controlling interest in the acquiree; and, if the business combination is achieved in stages, the fair value of existing equity interest in the acquiree less the fair value of net identifiable assets acquired and liabilities assumed. If the consideration is lower than the fair value of the net assets of the subsidiary acquired, the bargain purchase gain is recognized directly in profit or loss. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the entity's cash-generating units or group of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the entity are assigned to those units or groups of units. Each unit or group of units to which goodwill is allocated represents the lowest level within the entity at which goodwill is monitored for internal management purposes.

Where goodwill has been allocated to a cash-generating unit or group of cash generating units and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation in determining the gain or loss on disposal. Goodwill disposed in this circumstance is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

**Financial Assets and Liabilities**

**Recognition and Measurement**

*Date of Recognition.* The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of a financial instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

*Initial Recognition and Measurement.* Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated at fair value through profit and loss (FVPL), includes transaction cost.

*"Day 1" Difference.* Where the transaction in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a "Day 1" difference) in profit or loss. In cases where there is no observable market data on inception, the Group deems the transaction price as the best estimate of fair value and recognizes "Day 1" difference in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the "Day 1" difference.

**Classification**

The Group classifies its financial assets at initial recognition under the following categories: (a) financial assets at FVPL, (b) financial assets at amortized cost and (c) financial assets at fair value through other comprehensive income (FVOCI). Financial liabilities, on the other hand, are classified as either financial liabilities at FVPL or financial liabilities at amortized cost. The classification of a financial instrument largely depends on the Group's business model and its contractual cash flow characteristics.

As at December 31, 2019 and 2018, the Group does not have financial assets and liabilities at FVPL and financial assets at FVOCI.

*Classification of Financial Instruments between Liability and Equity.* A financial instrument is classified as liability if it provides for a contractual obligation to:

- Deliver cash or another financial asset to another entity;
- 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.

*Financial Assets at Amortized Cost.* Financial assets shall be measured at amortized cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method, less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the financial assets are derecognized and through amortization process. Financial assets at amortized cost are included under current assets if realizability or collectability is within 12 months after the reporting period. Otherwise, these are classified as noncurrent assets.

As at December 31, 2019 and 2018, the Group's cash and cash equivalents, trade and other receivables and other noncurrent receivables presented under "Other noncurrent assets" are classified under this category.

Cash equivalents pertain to cash placements with a bank for varying periods of up to three months depending on the immediate cash requirements of the Group.

*Financial Liabilities at Amortized Cost.* Financial liabilities are categorized as financial liabilities at amortized cost when 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 settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

These financial liabilities are initially recognized at fair value less any directly attributable transaction costs. After initial recognition, these financial liabilities are subsequently measured at amortized cost using the effective interest 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 effective interest rate. Gains and losses are recognized in profit or loss when the liabilities are derecognized or through the amortization process.

As at December 31, 2019 and 2018, the Group's trade and other payables (excluding statutory payable and customers' deposits), loans payable, lease liabilities and due to related parties are classified under this category.

**Reclassification**
The Group reclassifies its financial assets when, and only when, it changes its business model for managing those financial assets. The reclassification is applied prospectively from the first day of the first reporting period following the change in the business model (reclassification date).

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVPL, any gain or loss arising from the difference between the previous amortized cost of the financial asset and fair value is recognized in profit or loss.

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVOCI, any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in other comprehensive income.

**Impairment of Financial Assets at Amortized Cost**
The Group records an allowance for ECL. ECL is based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The difference is then discounted at an approximation to the asset's original effective interest rate.

For trade and other receivables (excluding receivable from Prime Foods NZ Limited [PFNZ]), the Group has applied the simplified approach and has calculated ECL based on the lifetime expected credit losses. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other financial assets at amortized costs (including receivable from PFNZ), the ECL is based on the 12-month ECL, which pertains to the portion of lifetime ECL that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since initial recognition, the allowance will be based on the lifetime ECL. When determining whether the credit risk of a financial asset has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition.

**Derecognition**

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

- the right to receive cash flows from the asset has expired;

- the Group retains the right to receive cash flows from the financial 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 right to receive cash flows from the financial asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

**Offsetting**

Financial assets and financial liabilities are offset and the net amount is 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 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, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

**Inventories**

Inventories are initially measured at cost. Subsequently, inventories are stated at the lower of cost and NRV. Cost incurred in bringing each product to its present location and condition is accounted as follows:

*Raw Materials and Packaging Supplies.* Cost is determined using weighted average method. NRV is the current replacement cost.

*Finished Goods and Work in Process.* Costs of inventories are calculated using weighted average method. Costs comprise direct materials and when applicable, direct labor costs and those overheads that have been incurred in bringing the inventories to their present location and condition. NRV represents the estimated selling price less estimated costs of completion and costs necessary to make the sale.

When the NRV of the inventories is lower than the cost, the Group provides for an allowance for the decline in the value of the inventory and recognizes the write-down as an expense in profit or loss. The amount of any reversal of any write-down of inventories, arising from an increase in NRV, is recognized as part of other income or charges in the consolidated statement of comprehensive income.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period when the related revenue is recognized and the related allowance for impairment is reversed.

**Other Assets**

Other assets that are expected to be realized over no more than 12 months after the reporting date are classified as current assets. Otherwise, these are classified as noncurrent assets.

*Advances to Suppliers.* Advances to suppliers are recognized whenever the Group pays in advance for its purchase of goods. These advances are measured at transaction price less any impairment in value.

*Value-Added Tax (VAT).* Revenue, expenses and assets are recognized net of the amount of VAT except receivables and payables that are stated with the amount of VAT included. The net amount of VAT recoverable from the taxation authority is included as part of "Other current assets" account in the consolidated statement of financial position.

*Prepayments.* Prepayments are expenses paid in advance and recorded as assets before these are utilized. These are measured at face amount less any impairment in value. These are apportioned over the period covered by the payment and recognized in profit or loss when incurred.

*Investments in an Associate and Joint Ventures.* An associate is an entity in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% percent of the voting power of another entity.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investments in an associate and joint ventures are initially carried in the consolidated statement of financial position at cost. Subsequent to initial recognition, investments in an associate and joint ventures are measured in the consolidated financial statements using the equity method.

Under the equity method, the investments in an associate or a joint venture are initially recognized at cost. The carrying amount of the investments is adjusted to recognize changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investments and is neither amortized nor individually tested for impairment.

Upon loss of significant influence over the associate or of joint control over the joint venture, the Group measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the investment upon loss of significant influence or joint control and the fair value of the retained interest and proceeds from disposal is recognized in profit or loss.

*Biological Assets.* The Group measures its biological assets on initial recognition and at the end of each reporting period at its fair value less costs to sell. Biological assets of the Group comprised solely of consumable female smolts. They are cultured during the developmental phase which lasts for an average period of 14-16 months.

Harvested agricultural produce are also carried at fair value less estimated costs to sell at harvest point.

Gains or losses arising on initial recognition of biological asset at fair value less estimated point-of-sale costs and from a change in fair value less estimated point-of-sale of biological asset are included in the consolidated statement of comprehensive income for the period when they arise.

*Idle Assets.* Idle assets are those which are no longer used in the Group's operations. These are measured at cost less accumulated depreciation and any impairment loss. The Group's idle assets are already fully provided with allowance for impairment loss.

**Property, Plant and Equipment**

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

The initial cost of property, plant and equipment comprises its purchase price, after deducting trade discounts and rebates, and any directly attributable costs of bringing the asset to its working condition and location for its intended use. The cost of self-constructed assets includes the cost of materials and direct labor, any other directly attributable costs, the costs of dismantling and removing the items and restoring the site on which they are located and capitalized borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalized as part of the equipment.

Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized in profit or loss in the year the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property, plant and equipment. The cost of replacing a component of an item of property, plant and equipment is recognized if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is derecognized.

When significant parts of an item of property, plant and equipment have different useful lives, these are accounted for as separate items (major components) of property, plant and equipment.

Depreciation and amortization are computed using the straight-line method over the following estimated useful lives of the property, plant and equipment:

| Asset Type | Number of Years |
|---|---|
| Building | 15 - 25 |
| Leasehold improvements | 5 (or lease term, whichever is shorter) |
| Machinery and equipment | 15 |
| Transportation equipment | 5 |
| Office and plant furniture, fixtures and equipment | 5 |

The estimated useful lives and depreciation and amortization method are reviewed periodically to ensure that these are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further charge for depreciation and amortization is made in respect of those assets.

When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation, amortization and any impairment in value are removed from the accounts. Any resulting gain or loss is recognized in profit or loss.

Construction-in-progress (CIP) represents properties under construction and is stated at cost, including cost of construction and other direct costs. CIP is not depreciated until such time that the relevant assets are completed and ready for operational use.

**Intangible Assets**

*Acquired Intangible Assets.* Intangible assets that are acquired by the Group with finite useful lives are initially measured at cost. At the end of each reporting period, items of intangible assets acquired are measured at cost less accumulated amortization and accumulated impairment losses. Cost includes purchased price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates and any directly attributable cost of preparing the intangible asset for its intended use.

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditure on internally generated goodwill and brands, are recognized in the consolidated profit or loss as incurred.

*Amortization of Intangible Assets with Definite Useful Lives.* Amortization for salmon farming consent and fishing license with finite useful life is calculated over the cost of the asset less its residual value.

Amortization is recognized in the consolidated statement of comprehensive income on a straight-line basis over the useful life of salmon farming consent and fishing license, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of the salmon farming consent and fishing license for the current and comparative periods is 25 years.

*Intangible Asset with Indefinite Useful Life.* Intangible asset with indefinite life is not amortized. However, these assets are reviewed annually to ensure the carrying value does not exceed the recoverable amount regardless of whether an indicator of impairment is present. The Group considers its macrocystic consent having an indefinite useful life for the following reasons:

- there has been no established legal or contractual expiration date;
- impracticability of the determination of the intangible assets' economic useful lives; and
- are expected to generate net cash flows for the Group.

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

**Impairment of Nonfinancial Assets**

The carrying amounts of the Group's nonfinancial assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication exists and when the carrying amounts exceed the estimated recoverable amounts, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of the fair value less cost to sell or value in use. The fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's-length transaction less the cost of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in profit or loss.

An assessment is made at each reporting 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. In such instance, the carrying amount of the asset is increased to its recoverable amount. However, 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 profit or loss. After such reversal, the depreciation and amortization charges are adjusted in future years to allocate the asset's revised carrying amount, on a systematic basis over its remaining useful life.

*Goodwill and Other Intangible Assets with Indefinite Useful Lives.* The Group assesses goodwill and other intangible assets with indefinite useful lives for impairment annually and when circumstances indicate that the carrying amount may be impaired. Impairment is determined for goodwill and other intangible assets with indefinite useful lives by assessing the recoverable amount of the cash-generating units, to which the goodwill and other intangible assets with indefinite useful lives relate.

Where the recoverable amount of the cash-generating units is less than their carrying amount, an impairment loss is recognized. Impairment losses relating to these intangible assets cannot be reversed in future periods.

**Customers' Deposits**

Customers' deposits consist of amounts received by the Group from its customers as advance payments for the sale of goods. These are recorded at face amount under "Trade and other payables" account in the consolidated statement of financial position and recognized as revenue in profit or loss when the goods for which the advances were made are delivered to the customers.

**Equity**

*Capital Stock and APIC.* Capital stock is measured at par value for all shares issued. Incremental costs, net of tax, incurred that are directly attributable to the issuance of new shares are recognized in equity as a reduction from related APIC or retained earnings. Excess of proceeds or fair value of consideration received over par value is recognized as APIC.

*Retained Earnings (Deficit).* Retained earnings (deficit) represent the cumulative balance of the Group's results of operations. Retained earnings (deficit) may also include effect of changes in accounting policy as may be required by the standard's transitional provision.

*Other Comprehensive Income (Loss).* Other comprehensive income (loss) pertains to remeasurement gain (loss) on retirement benefits obligation, revaluation reserves and cumulative translation adjustments.

*Treasury Shares.* Own equity instruments which are reacquired are recognized at cost and deducted from equity. No gain or loss is recognized in the consolidated statement of comprehensive income on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in APIC. Voting rights related to treasury shares are nullified for the Group and no dividends are allocated to them.

**Revenue Recognition**

The Group generates revenue primarily from the sale of goods. Other revenue sources include rental, interest and other income.

*Revenue from Contracts with Customers.* Revenue from contracts with customers is recognized when the performance obligation in the contract has been satisfied, either at a point in time or over time. Revenue is recognized over time if one of the following criteria is met: (a) the customer simultaneously receives and consumes the benefits as the Group perform its obligations; (b) the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or (c) the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date. Otherwise, revenue is recognized at a point in time.

The Group also assesses its revenue arrangements to determine if it is acting as a principal or as an agent. The Group has assessed that it acts as a principal in all of its revenue sources.

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

- *Sale of Goods.* Revenue is recognized, net of sales returns and discounts, when the significant risks and rewards of ownership of the goods have passed to the customers, which is normally upon delivery to and acceptance of the goods by the buyer.

*Revenue from Other Sources.* Revenue from other sources is recognized as follows:

- *Rental Income.* Revenue is recognized on a straight-line basis over the term of the lease.

- *Interest Income.* Interest is recognized as it accrues on a time proportion basis using the effective interest method.

- *Other Income.* Income from other sources is recognized when earned during the year.

**Contract Balances**

*Receivables.* A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

*Contract Assets.* A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays a consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional.

As at December 31, 2019 and 2018, the Group does not have outstanding contract assets.

*Contract Liabilities.* A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays a consideration before the Group transfers goods or services to the customer, a contract liability is recognized when the payment is made by the customer or when the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Group performs under the contract.

The Group considers its customers' deposits as contract liabilities (see Note 11).

*Cost to Obtain a Contract.* The incremental costs of obtaining a contract with a customer are recognized as an asset if the Group expects to recover them. Otherwise, these are treated as expense.

*Contract Fulfillment Asset.* Contract fulfillment costs are divided into: (i) costs that give rise to an asset; and (ii) costs that are expensed as incurred. When determining the appropriate accounting treatment for such costs, the Group first considers any other applicable standards. If those standards preclude capitalization of a particular cost, then an asset is not recognized under PFRS 15. If other standards are not applicable to contract fulfillment costs, the Group applies the following criteria which, if met, result in capitalization: (i) the costs directly relate to a contract or to a specifically identifiable anticipated contract; (ii) the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and (iii) the costs are expected to be recovered. The assessment of these criteria requires the application of judgment, in particular when considering if costs generate or enhance resources to be used to satisfy future performance obligations and whether costs are expected to be recoverable.

As at December 31, 2019 and 2018, the Group does not have contract fulfillment assets.

**Cost and Expense Recognition**
Costs and expenses are recognized in profit or loss when a decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably.

*Cost of Goods Sold.* Cost of goods sold is recognized as expense when the related goods are sold.

*Selling and Administrative Expenses.* Selling expenses constitute costs incurred to sell and market the goods and services. Administrative expenses constitute costs of administering the business. These are charged to profit or loss in the period when these are incurred.

*Interest Expense.* Interest is recognized as it accrues on a time proportion basis using the effective interest method.

*Other Charges.* Expenses from other sources are expensed as incurred.

**Leases**

a. Accounting policies prior to January 1, 2019

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

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

i. there is a change in contractual terms, other than a renewal or extension of the arrangement;

ii. a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;

iii. there is a change in the determination of whether fulfillment is dependent on a specified asset; or

iv. there is a substantial change to the asset.

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

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Operating lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term.

b. Accounting policies beginning January 1, 2019

The Group assesses whether the contract is, or contains, a lease. To assess whether a contract conveys the right to control the use of an identified assets for a period of time, the Group assesses whether, throughout the period of use, it has both of the following:

i. the right to obtain substantially all of the economic benefits from the use of the identified asset; and

ii. the right to direct the use of the identified asset.

If the Group has the right to control the use of an identified asset for only a portion of the term of the contract, the contract contains a lease for that portion of the term. The Group also assesses whether a contract contains a lease for each potential separate lease component.

At the commencement date, the Group recognizes ROU assets and lease liabilities for all leases, except for leases with lease terms of 12 months or less (short-term leases) and leases for which the underlying asset is of low value in which case the lease payments associated with those leases are recognized as an expense on a straight-line basis.

*ROU Assets.* At commencement date, the Group measures ROU assets at cost. The cost comprises:

i. the amount of the initial measurement of lease liabilities;

ii. any lease payments made at or before the commencement date less any lease incentives received;

iii. any initial direct costs; and

iv. an estimation of costs to be incurred by the Group in dismantling and removing the underlying asset, when applicable.

The ROU assets are recognized at the present value of the liability at the commencement date of the lease, adding any directly attributable costs. After the commencement date, the ROU assets are carried at cost less any accumulated amortization and accumulated impairment losses, and adjusted for any remeasurement of the related lease liabilities. The ROU assets are amortized over the shorter of the lease terms or the useful lives of the underlying assets ranging from four to 28 years.

*Lease Liabilities.* At commencement date, the Group measures a lease liabilities at the present value of future lease payments using the interest rate implicit in the lease, if that rate can be readily determined. Otherwise, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of a lease liabilities comprise the following:

i. fixed payments, including in-substance fixed payments;

ii. variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

iii. amounts expected to be payable by the lessee under residual value guarantees; and

iv. the exercise price under a purchase option that the Group is reasonably certain to exercise; lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option; and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

Lease liabilities are subsequently measured at amortized cost. Interest on the lease liabilities and any variable lease payments not included in the measurement of lease liabilities are recognized in profit or loss unless these are capitalized as costs of another asset. Variable lease payments not included in the measurement of the lease liabilities are recognized in profit or loss when the event or condition that triggers those payments occurs.

If there is a change in the lease term or if there is a change in the assessment of an option to purchase the underlying asset, the lease liability is remeasured using a revised discount rate considering the revised lease payments on the basis of the revised lease term or reflecting the change in amounts payable under the purchase option. The lease liability is also remeasured using the revised lease payments if there is a change in the amounts expected to be payable under a residual value guarantee or a change in future lease payments resulting from a change in an index or a rate used to determine those payments.

For income tax reporting purposes, payments and receipts under lease agreements are treated as deductible expense and taxable income in accordance with the terms of the lease agreements.

**Retirement Benefits**

Retirement benefits costs are actuarially determined using the projected unit credit method. This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries.

The Group recognizes service costs comprising of current service costs and net interest expense on the retirement benefits liability in profit or loss.

The Group determines the net interest expense on retirement benefits liability by applying the discount rate to the net retirement benefits liability at the beginning of the year, taking into account any changes in the liability during the period as a result of contributions and benefit payments.

Remeasurements of the net retirement benefits liability, which consist of actuarial gains and losses and the return on plan asset (excluding amount charged in net interest) are recognized immediately in other comprehensive income and are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held in trust and managed by a trusted bank. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. The fair value of the plan assets is based on the 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 net retirement benefits liability recognized by the Group is the present value of the defined benefit obligation reduced by the fair value of plan asset. The present value of defined benefit obligation is determined by discounting the estimated future cash outflows using risk-free interest rates of government bonds that have terms to maturity approximating the terms of the related retirement benefits liability.

Actuarial valuations are made with sufficient regularity so that the amounts recognized in the consolidated financial statements do not differ materially from the amounts that would be determined at the reporting date.

**Income Taxes**

*Current tax.* Current tax liabilities for the current and prior years are measured at the amounts expected to be paid to the taxation authority. The tax rates and laws used to compute the amount are those that are enacted or substantively enacted as at financial reporting date.

*Deferred tax.* Deferred tax is provided on all temporary differences at the reporting 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. Deferred tax assets are recognized for all deductible temporary differences, net operating loss carryover (NOLCO) and minimum corporate income tax (MCIT), to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of unused NOLCO and excess MCIT can be utilized.

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

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

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in relation to the underlying transaction either in other comprehensive income or directly in equity.

*Offsetting.* Current tax assets and current tax liabilities are offset, or deferred tax assets and deferred tax liabilities are offset if, and only if, an enforceable right exists to set off the amounts and it can be demonstrated without undue cost or effort that the Group plans either to settle on a net basis or to realize the asset and settle the liability simultaneously.

**Foreign Currency-denominated Transactions and Translation**

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 using the exchange rate at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are restated using the closing exchange rate prevailing at the reporting date. Exchange gains or losses arising from foreign exchange transactions are credited to or charged against operations for the year.

Investments in associates and subsidiaries whose functional currency is other than U.S. Dollar are translated to U.S. Dollar using the closing exchange rate prevailing at the reporting date. The Group's share in the results of operations of the foreign investee is translated using the exchange rate at the dates of the transactions or, where practicable, the rate that approximates the exchange rates at the dates of the transactions, such as the average rate for the period. Any resulting exchange difference is recognized as a separate component of equity.

Exchange differences arising on the settlement of monetary items, and on retranslation of monetary items are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation on non-monetary items in respect of which gains and losses are recognized in other comprehensive income.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in U.S. Dollars using exchange rates prevailing at the end of the reporting period. Income and expense items (including comparatives) are translated at the average exchange rates at the dates of the transactions are used. Exchange differences, if any, are recognized in other comprehensive income and accumulated in a separate component of equity under the header of foreign currency translation reserve.

On the disposal of a foreign operation (i.e., a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the accumulated exchange differences in respect of that operation attributable to the Group are reclassified to profit or loss. Any exchange differences that have previously been attributed to non-controlling interests are derecognized, but they are not reclassified to profit or loss.

For income tax reporting purposes, foreign exchange gains or losses are treated as taxable income or deductible expenses in the year such are realized.

**Related Party Relationships and Transactions**

Related parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. Such relationships also exist between and/or among entities which are under common control with the reporting enterprise, or between and/or among the reporting enterprises and their key management personnel, directors, or its stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely to the legal form.

Related party transactions are considered material and/or significant if (i) these transactions amount to 10% or higher of the Group's total assets or, (ii) there are several transactions or a series of transactions over a 12-month period with the same related party amounting to 10% or higher of the Group's total assets. Details of transactions entered into by the Group with related parties are reviewed by the BOD in accordance with the Group's related party transactions policies.

Related party transactions consist of transfers of resources, services or obligations between the Group and its related parties, regardless of whether a price is charged.

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

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

**Events after the Reporting Period**
The Group identifies subsequent events as events that occurred after the reporting date but before the date when the consolidated financial statements were authorized for issue. Any subsequent event that provides additional information about the Group's financial position at the reporting date is reflected in the consolidated financial statements. Non-adjusting subsequent events are disclosed in the notes to the consolidated financial statements when material.

**Income (Loss) per Share**
The Group presents basic and diluted income (loss) per share data for its common shares.

Basic income (loss) per share is calculated by dividing the net income (loss) attributable to common shareholders of the Parent Company by the weighted average number of common shares issued and outstanding during the year. There are no potential dilutive shares.

**Operating Segments**
For management purposes, the Group is divided into operating segments per product/service (tuna, salmon, and rental) according to the nature of the products and services provided. The Group's identified operating segments are consistent with the segments reported to the BOD, which is the Group's Chief Operating Decision Maker. Financial information on operating segments is presented in Note 27.

## 3. Significant Judgments, Accounting Estimates and Assumptions

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities and disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in an outcome that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

While the Group believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the estimated amounts. Actual results could differ from such estimates. In particular, the COVID-19 pandemic and the resulting adverse effects to the global economic conditions, as well as to the Group's operations, may impact future estimates including, but not limited to, the allowance for ECL, valuation of inventories, fair value measurements, impairment of nonfinancial assets, recognition of deferred tax assets, actuarial gains or losses on retirement benefits obligation and discount rate assumptions.

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

The Group believes that the following represent a summary of these significant judgments, estimates and assumptions and the related impact and associated risks in the consolidated financial statements:

*Determining Functional Currency.* Based on management's assessment, the functional currency of the entities in the Group has been determined to be the U.S. Dollar, except for certain subsidiaries whose functional currency is the New Zealand Dollar and Philippine Peso. The U.S. Dollar is the currency that mainly influences the operations of most of the entities within the Group.

*Determining Control Over Subsidiaries.* Control is presumed to exist when an investor is exposed, or has rights, to variable returns from its involvement with the subsidiaries and has the ability to affect those returns through its power over the subsidiaries. Management has determined that by virtue of its majority ownership of voting rights or by the power to cast the majority of votes through its representatives in the BOD of its subsidiaries as at December 31, 2019 and 2018, the Parent Company has the ability to exercise control over these investees.

*Determining Reportable Operating Segments.* The Group has determined that it has reportable segments based on the following thresholds:

a. Its reported revenue, including both sales to external customers and intersegment sales or transfers, is 10% or more of the combined revenue, internal and external, of all operating segments.

b. The absolute amount of its reported profit or loss is 10% or more, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss.

c. Its assets are 10% or more of the combined assets of all operating segments.

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

*Classifying Financial Assets and Liabilities.* The Group has determined that it shall classify its financial assets at amortized cost on the basis of the following conditions met:

- The asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Moreover, the Group has determined that it shall classify its financial liabilities at amortized cost using the effective interest method.

*Assessing ECL.* The Group's trade and other receivables are subject to the ECL model. While cash and cash equivalents are also subject to the impairment requirements of PFRS 9, the assessed impairment loss is not material.

Trade and Other Receivables (excluding Receivable from PFNZ). The Group applies the simplified approach in measuring ECL on trade and other receivables, which uses a lifetime expected loss allowance for all trade receivables. To measure the ECL, trade and other receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are initially based on the Group's historical default rates. These historical default rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified macroeconomic factors (i.e., gross domestic product growth rates, foreign exchange rates, inflation rate, etc.) that are relevant and accordingly adjust the historical loss rates based on expected changes in these factors.

The assessment of the correlation between historical default rates, forecast economic conditions and ECL is a significant estimate. The amount of ECL is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of the customer's actual default in the future.

The Group's provision for ECL on trade and other receivables is disclosed in Note 6.

Receivable from PFNZ and Other Financial Assets at Amortized Cost. The Group applies the general approach in measuring ECL, which uses a 12-month or lifetime ECL. An impairment issue arises when there is an objective evidence of impairment, which involves significant judgment. In making this judgment, the Group evaluates financial health of the counterparty and the capacity and willingness to pay, among others.

Management has assessed that the Group has security and valid claims over PFNZ's assets for the full recovery of the receivable. Accordingly, no ECL was recognized on receivable from PFNZ in 2019, 2018 and 2017.

The carrying amounts of the Group's cash and cash equivalents, trade and other receivables, and other noncurrent receivables are disclosed in Notes 5, 6 and 10.

*Classifying Lease Commitments prior to January 1, 2019 - Group as a Lessee.* The Group has an operating lease agreement for its office and manufacturing space. The Group has determined that the arrangements are operating leases as the risks and rewards of ownership are retained by the lessor.

Rent expense is disclosed in Note 22.

*Classifying Lease Commitments beginning January 1, 2019 - Group as a Lessee.* The Group has entered into lease agreements for its office space and manufacturing area. For the Group's non-cancellable lease, the Group recognizes ROU assets and lease liabilities measured at the present value of lease payments to be made over the lease term using the Group's incremental borrowing rate. The Group availed exemption for the short-term leases with terms of 12 months or less. Accordingly, lease payments on short-term leases are recognized as expense on a straight-line basis over the lease term.

The carrying amounts of ROU assets and lease liabilities are disclosed in Note 22.

*Assessing Extension Options of Lease Commitments.* The Group's property leases on office and plant contain extension options exercisable by the Group prior to the end of the contract period to maximize operational flexibility in terms of managing contracts. Extension options are not reflected in measuring lease liabilities in cases when these options are not reasonably certain to be exercised or when the terms and conditions of the renewed contract are uncertain and subject to change considering the economic circumstances under which the Group operates. A reassessment will be made when there is a significant event or significant change in circumstances within its control. In 2019, there were no reassessments made.

For abovementioned property leases, the undiscounted potential future rental payments relating to periods following the exercise date of extension options that are not included in the lease liabilities are shown below.

| | |
|---|---|
| Not later than one year | $– |
| More than one year but less than five years | 91,534 |
| More than five years | 222,214 |
| Undiscounted potential future rental payments | 313,748 |
| Effect of discounting using incremental borrowing rate | 150,865 |
| Lease liabilities not recognized | $162,883 |

*Estimating ROU Assets and Lease Liabilities.* The Group's ROU assets and lease liabilities are initially measured at the present value of lease payments. In determining the appropriate discount rate, the Group considered readily available interest rate implicit in the lease agreements, interest rate on its borrowings, and the term of each lease commitment. The Group determined that the implicit rate in the lease agreement is not readily available and that the interest rate on its borrowings presents the appropriate financing cost in leasing the underlying assets. The incremental borrowing rate used in the lease is the rate that would cause the present value of the lease payments and unguaranteed residual to equal the sum of the fair value of the underlying assets and initial direct costs incurred.

The carrying amounts of ROU assets and lease liabilities are disclosed in Note 22.

*Estimating NRV of Inventories.* The NRV of inventories represents the estimated selling price for inventories less all estimated costs of completion and cost necessary to make the sale. The Group determines the estimated selling based on the recent sale transaction of similar goods with adjustments to reflect any changes in economic conditions since the date when the transactions occurred. The Group records provisions for the excess of cost over the net realizable value of inventories. While the Group believes that the estimates are reasonable and appropriate, significant differences in the actual experience or significant changes in estimates may materially affect the profit or loss and equity.

The carrying amount of inventories carried at lower of cost and NRV is disclosed in Note 7.

*Estimating Useful Lives of Property, Plant and Equipment and Intangible Assets.* The Group estimates the useful lives of property, plant and equipment and intangible assets based on the period over which the assets are expected to be available for use. The estimates are based on a collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful lives of these assets are reviewed at each reporting date and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. Future results of operations could be materially affected by changes in estimates brought about by changes in the factors mentioned above. The amount and timing of recording of depreciation expense for any period would be affected by changes in these factors and circumstances.

There were no changes in the estimated useful lives of the Group's property, plant and equipment and intangible assets as at December 31, 2019 and 2018.

The carrying amounts of property, plant and equipment (except land) and intangible assets, net of accumulated depreciation, amortization and impairment losses are disclosed in Notes 9 and 10.

*Assessing Impairment of Nonfinancial Assets and Goodwill.* The Group assesses impairment on its nonfinancial assets (excluding goodwill and macrocystic consent) whenever events or changes in circumstances indicate that the carrying amount of the assets or group of assets may not be recoverable. The relevant factors that the Group considers in deciding whether to perform an asset impairment review include the following:

- significant underperformance of a business in relation to expectations;
- significant negative industry or economic trends; and
- significant changes or planned changes in the use of the assets.

Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs. Recoverable amount represents the greater of the fair value less cost to sell and the value in use. Value in use is determined as the present value of estimated future cash flows expected to be generated from the continued use of the assets. The estimated cash flows are projected using growth rates based on historical experience and business plans and are discounted using pretax discount rates that reflect the current assessment of the time value of money and the risks specific to the assets.

Goodwill and macrocystic consent are tested for impairment annually and more frequently, when circumstances indicate that the carrying amount may be impaired.

Management has assessed that the amount of allowance for impairment of the Group's nonfinancial assets is sufficient except for property, plant and equipment and idle assets wherein provision for impairment losses amounting to $1.09 million was recognized in 2017 (see Notes 9 and 10).

The carrying amounts of these nonfinancial assets are disclosed in Notes 8, 9 and 10.

*Estimating Retirement Benefits Cost.* The determination of the obligation and costs of retirement benefits is dependent on the assumptions used by the actuary in calculating such amounts. These assumptions are described in Note 14 to the consolidated financial statements and include, among others, discount rates and salary increase rates.

Information in retirement benefits obligation are disclosed in Note 14.

*Recognizing Deferred Tax Assets.* The carrying amount of deferred tax assets at each reporting date is reviewed and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The Group's assessment on the recognition of deferred tax assets on deductible temporary differences is based on the forecasted taxable income of the subsequent reporting periods. This forecast is based on the Group's past results and future expectations on revenue and expenses.

The Group did not recognize deferred tax assets amounting to $1.99 million and $1.16 million as at December 31, 2019 and 2018, respectively, since the Group believes that it is not probable that sufficient taxable profit will be available to allow all or part of the MCIT and NOLCO to be utilized within the period allowed by the tax regulations.

The information on deferred tax assets is disclosed in Note 24.

*Evaluation of Provisions and Contingencies.* The Group provides for present obligations (legal or constructive) where it is probable that there will be an outflow of resources embodying economic benefits that will be required to settle said obligations. An estimate of the provision is based on known information at the end of reporting period, net of any estimated amount that may be reimbursed to the Group. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. The amount of provision is being re-assessed at least on an annual basis to consider new relevant information.

Provisions recognized are disclosed in Note 18. Pursuant to PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, information expected to seriously prejudice the position of an entity, subject of the provision need not be disclosed.

## 4. Goodwill and Disposal of an Investment

**Goodwill**

Goodwill resulted from the acquisition by the Parent Company of the following subsidiaries:

*Akaroa.* The Parent Company acquired 80% ownership of Akaroa in 2012. The acquisition enables the Group to stabilize its supply of salmon.

*Spence.* The Parent Company acquired 100% ownership of Spence in 2011. The acquisition of Spence's salmon processing facilities in the USA allows the Group to diversify its product line.

The acquisition of Akaroa and Spence resulted in goodwill aggregating $9.50 million. The carrying amount of goodwill amounted to $2.05 million and $9.50 million as at December 31, 2019 and 2018, respectively.

Based on the Group's annual impairment test using a discounted cash flow model covering a five-year period, the Group has assessed that goodwill is not impaired as at December 31, 2019 and 2018. The principal assumptions made in determining the recoverable amount (value in use) are discount rate of 7.66% and growth rate of 5.00% in 2019 and 2018.

Management determined the five-year projected cash flows based on past performance, existing contracts and expectations on market development such as average price, revenue growth range and expected costs to generate such revenue. The discount and growth rates used were based on the Group's pre-tax weighted average cost of capital (WACC) using capital asset pricing model and pre-tax cash flow long-term growth rate, taking into consideration the sector performance and general market and economic conditions.

**Disposal of an Investment**

On October 23, 2019, the Parent Company approved the disposal of its 100% equity investment in Spence to a third party resulting to a loss (see Note 19).

The carrying amounts of the assets and liabilities of Spence as at October 23, 2019, which have been excluded in the 2019 consolidated financial statements, are as follows:

| | Carrying Amount |
|---|---|
| Total assets | $6,669,328 |
| Total liabilities | (1,473,627) |
| Net assets sold | $5,195,701 |

The revenue and net income of Spence included in the consolidated statements of comprehensive income amounted to $14.55 million and $60,683, respectively, for the period ended October 30, 2019, revenue and net loss of $19.65 million and $135,465, respectively, in 2018, and revenue and net income of $20.27 million and $235,576, respectively, in 2017.

## 5. Cash and Cash Equivalents

This account consists of:

| | **2019** | 2018 |
|---|---|---|
| Cash on hand | **$14,484** | $6,706 |
| Cash in banks | **1,856,977** | 7,000,668 |
| Cash equivalents | **–** | 4,958 |
| | **$1,871,461** | $7,012,332 |

Cash in banks earn interest at the prevailing bank deposit rates.

Interest income from cash in banks and cash equivalents amounted to $75,099, $24,160 and $19,079 in 2019, 2018 and 2017, respectively (see Note 19).

## 6. Trade and Other Receivables

This account consists of:

| | Note | **2019** | 2018 |
|---|---|---|---|
| Trade receivable from: | | | |
| Third parties | | **$10,378,379** | $11,786,540 |
| Related parties | 13 | **234,185** | 245,236 |
| Receivable from PFNZ | | **1,063,665** | 176,395 |
| Claims receivables | | **997,517** | 1,027,177 |
| Advances to officers and employees | | **14,840** | 3,610 |
| Others | | **1,463,198** | 656,587 |
| | | **14,151,784** | 13,895,545 |
| Less allowance for impairment losses | | **2,038,252** | 2,046,950 |
| | | **$12,113,532** | $11,848,595 |

Trade receivables are generated from the sale of inventories which are noninterest-bearing, unsecured and are generally collectible within 30 to 60 days.

Details of the receivable from PFNZ are as follows:

| | Note | 2019 | 2018 |
|---|---|---|---|
| Outstanding balance | | **$1,063,665** | $1,063,665 |
| Less current portion | | **1,063,665** | 176,395 |
| Noncurrent portion | 10 | **$–** | $887,270 |

No collection was received in 2019. Cash receipts amounted to $71,296 and $110,557 in 2018 and 2017, respectively.

In 2015, BGB entered into a debt restructuring agreement with PFNZ, a former subsidiary, which provides among others:

a. Payment of the receivable in monthly installments commencing in January 2016 up to September 2029; and

b. Securing the receivable with PFNZ's tangible and intellectual properties.

Interest income amounted to $41,266 and $51,886 in 2018 and 2017, respectively (see Note 19).

Claims receivables include claims for refunds from government agencies and claims from insurance, suppliers and other parties.

Movements in the allowance for impairment losses are as follows:

| | Note | 2019 | 2018 |
|---|---|---|---|
| Balance at beginning of year | | **$2,046,950** | $2,011,950 |
| Reversal | | **(20,427)** | (45,000) |
| Provisions | 18 | **11,729** | 80,000 |
| Balance at end of year | | **$2,038,252** | $2,046,950 |

Trade receivables amounting to $6.5 million and $5.2 million are used to secure short-term loans from local banks as at December 31 2019 and 2018, respectively (see Note 12).

## 7. Inventories

This account consists of:

| | Note | 2019 | 2018 |
|---|---|---|---|
| At cost: | | | |
| Finished goods | 17 | **$5,878,003** | $5,955,771 |
| Raw materials | | **3,680,096** | 6,493,043 |
| Packaging supplies | | **231,535** | 325,299 |
| Work-in-process | | **–** | 240,694 |
| | | **9,789,634** | 13,014,807 |
| At NRV: | | | |
| Finished goods | | **2,869,440** | 476,839 |
| Raw and packaging supplies | | **–** | 454,116 |
| | | **2,869,440** | 930,955 |
| | | **$12,659,074** | $13,945,762 |

The costs of inventories measured at NRV are as follows:

| | Note | 2019 | 2018 |
|---|---|---|---|
| Finished goods | 17 | **$3,818,304** | $1,094,044 |
| Raw and packaging materials | | **79,466** | 596,059 |
| | | **$3,897,770** | $1,690,103 |

Movements in the allowance for impairment losses on inventories are as follows:

| | Note | 2019 | 2018 |
|---|---|---|---|
| Balance at beginning of year | | **$759,148** | $1,354,142 |
| Provision | 18 | **921,936** | 209,488 |
| Reversal | | **(652,754)** | (804,482) |
| Balance at end of year | | **$1,028,330** | $759,148 |

Reversal of allowance for impairment of inventories mainly pertains to inventories condemned and subsequently sold, which were provided with allowance.

Inventories charged to cost of goods sold amounted to $60.03 million, $68.67 million and $49.39 million in 2019, 2018 and 2017, respectively (see Note 17).

Inventories amounting to $9.6 million and $11.8 million are used to secure short-term loans from local banks as at December 31 2019 and 2018, respectively (see Note 12).

## 8. Other Current Assets

This account consists of:

| | 2019 | 2018 |
|---|---|---|
| Advances to suppliers | **$9,094,833** | $7,068,066 |
| Input VAT | **667,357** | 611,827 |
| Prepayments: | | |
| Insurance | **27,903** | 51,928 |
| Rent | **3,124** | 44,351 |
| Others | **437,258** | 452,479 |
| | **10,230,475** | 8,228,651 |
| Less allowance for impairment losses | **(89,373)** | (73,960) |
| | **$10,141,102** | $8,154,691 |

Advances to suppliers pertain to advance payments for the purchase of raw materials.

Others pertain to payment for subscription and other fees.

Movements of allowance for impairment losses are as follows:

| | Note | 2019 | 2018 |
|---|---|---|---|
| Balance at beginning of year | | **$73,960** | $73,960 |
| Provision | 18 | **15,413** | – |
| Balance at end of year | | **$89,373** | $73,960 |

## 9. Property, Plant and Equipment

Movements in this account are as follows:

| | December 31, 2019 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Land | Building and Leasehold Improvements | Machinery and Equipment | Transportation Equipment | Office Furniture, Fixtures and Equipment | Plant Furniture, Fixtures and Equipment | Construction-in-Progress | Total |
| **Cost** | | | | | | | | |
| Balances at beginning of year | $9,467,256 | $4,708,686 | $9,297,596 | $502,571 | $488,094 | $340,736 | $806,693 | $25,611,632 |
| Additions | – | 140,549 | 1,393,571 | 31,686 | 59,165 | 88,536 | 1,140,165 | 2,853,672 |
| Disposals/retirement | (1,113,589) | (2,061,982) | (1,050,069) | (145,776) | (179,802) | (249,380) | – | (4,800,598) |
| Reclassification | – | 57,316 | – | – | – | – | (57,316) | – |
| Translation adjustment | 56,486 | 4,693 | 10,990 | 587 | 283 | 1,550 | – | 74,589 |
| Balances at end of year | 8,410,153 | 2,849,262 | 9,652,088 | 389,068 | 367,740 | 181,442 | 1,889,542 | 23,739,295 |
| **Accumulated Depreciation and Amortization** | | | | | | | | |
| Balances at beginning of year | – | 1,916,924 | 5,508,208 | 343,176 | 332,970 | 325,840 | – | 8,427,118 |
| Depreciation and amortization | – | 174,836 | 774,176 | 34,488 | 31,940 | 5,081 | – | 1,020,521 |
| Disposals/retirement | – | (716,027) | (1,032,681) | (109,423) | (125,648) | (243,357) | – | (2,227,136) |
| Translation adjustment | – | 6,009 | (50,619) | 9,278 | 254 | 131 | – | (34,947) |
| Balances at end of year | – | 1,381,742 | 5,199,084 | 277,519 | 239,516 | 87,695 | – | 7,185,556 |
| **Allowance for Impairment Losses** | | | | | | | | |
| Balances at beginning of year | – | 1,418,389 | 274,942 | – | 5,133 | – | – | 1,698,464 |
| Disposals/retirement | – | (1,418,389) | (1,543) | – | – | – | – | (1,419,932) |
| | – | – | 273,399 | – | 5,133 | – | – | 278,532 |
| **Carrying Amount** | $8,410,153 | $1,467,520 | $4,179,605 | $111,549 | $123,091 | $93,747 | $1,889,542 | $16,275,207 |

| | December 31, 2018 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Land | Building and Leasehold Improvements | Machinery and Equipment | Transportation Equipment | Office Furniture, Fixtures and Equipment | Plant Furniture, Fixtures and Equipment | Construction-in-Progress | Total |
| **Cost** | | | | | | | | |
| Balances at beginning of year | $9,448,346 | $4,658,162 | $9,128,586 | $496,538 | $449,169 | $136,848 | $869,281 | $25,186,930 |
| Additions | – | 36,279 | 59,485 | 5,965 | 40,733 | 206,360 | 72,520 | 421,342 |
| Disposals/retirement | – | (474) | (42,038) | – | (1,895) | (5,019) | – | (49,426) |
| Reclassification | – | – | 135,108 | – | – | – | (135,108) | – |
| Translation adjustment | 18,910 | 14,719 | 16,455 | 68 | 87 | 2,547 | – | 52,786 |
| Balances at end of year | 9,467,256 | 4,708,686 | 9,297,596 | 502,571 | 488,094 | 340,736 | 806,693 | 25,611,632 |
| **Accumulated Depreciation and Amortization** | | | | | | | | |
| Balances at beginning of year | – | 1,608,028 | 5,034,788 | 291,526 | 320,399 | 129,356 | – | 7,384,097 |
| Depreciation and amortization | – | 309,918 | 492,946 | 51,662 | 14,397 | 201,236 | – | 1,070,159 |
| Disposals/retirement | – | (447) | (19,283) | – | (1,895) | (4,752) | – | (26,377) |
| Translation adjustment | – | (575) | (243) | (12) | 69 | – | – | (761) |
| Balances at end of year | – | 1,916,924 | 5,508,208 | 343,176 | 332,970 | 325,840 | – | 8,427,118 |
| **Allowance for Impairment Losses** | | | | | | | | |
| Balances at beginning and end of year | – | 1,418,389 | 274,942 | – | 5,133 | – | – | 1,698,464 |
| **Carrying Amount** | $9,467,256 | $1,373,373 | $3,514,446 | $159,395 | $149,991 | $14,896 | $806,693 | $15,486,050 |

The Group's transportation equipment with net carrying value of $17,411 and $90,154 as at December 31, 2019 and 2018, respectively, are used as collateral to secure a chattel mortgage (see Note 12).

The depreciation and amortization charged to operations are as follows:

| | Note | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| Property, plant and equipment | | **$1,020,521** | $1,070,159 | $1,145,634 |
| ROU assets | 22 | **133,393** | – | – |
| Other intangible assets | 10 | **4,669** | 4,834 | 4,963 |
| | | **$1,158,583** | $1,074,993 | $1,150,597 |
| Charged to: | | | | |
| Cost of goods sold | 17 | **$817,814** | $928,685 | $1,029,724 |
| Selling and administrative expenses | 18 | **340,769** | 146,308 | 120,873 |
| | | **$1,158,583** | $1,074,993 | $1,150,597 |

The Group recognized a gain on disposal/retirement of property, plant and equipment amounting to $1.07 million, $1,338 and $58,618 in 2019, 2018 and 2017, respectively (see Note 19).

The cost of fully depreciated property, plant and equipment still used in Group's operations amounted to $1.01 million and $0.73 million as at December 31, 2019 and 2018, respectively.

## 10. Other Noncurrent Assets

This account consists of:

| | Note | 2019 | 2018 |
|---|---|---|---|
| Receivable from Wild Catch Fisheries, Inc. (WCFI) | | **$2,183,281** | $2,182,863 |
| Biological assets | | **583,435** | 528,158 |
| Investments in joint ventures | | **553,480** | 553,480 |
| Idle assets | | **314,320** | 314,320 |
| Investment in an associate | | **116,941** | 121,794 |
| Receivable from PFNZ - net of current portion | 6 | – | 887,270 |
| Other intangible assets | | **158,756** | 163,305 |
| Others | | **39,713** | 68,966 |
| | | **3,949,926** | 4,820,156 |
| Less allowance for impairment losses | | **3,164,942** | 3,164,942 |
| | | **$784,984** | $1,655,214 |

**Receivable from WCFI**

Receivable from WCFI includes receivable from the sale of a fishing vessel and advances for fish deposit. WCFI has ceased operations since 2014. These were fully provided with allowance for impairment losses.

**Investments in Joint Ventures**

Details of investments in joint ventures as at December 31, 2019 and 2018 are as follows:

| | Amount |
|---|---|
| At cost: | |
| FDCP | $240,964 |
| WCFI | 39,279 |
| Accumulated equity in net earnings | 360,189 |
| Share in other comprehensive income | (86,952) |
| | 553,480 |
| Allowance for impairment losses | (553,480) |
| | $– |

*FDCP.* FDCP is engaged in manufacturing and wholesale of tin cans. FDCP ceased manufacturing operations in September 2015. The Group has 39% ownership interest in FDCP.

*WCFI.* WCFI is an entity primarily engaged in commercial fishing within and outside Philippine waters and in the high seas. The Group has 40% ownership interest in WFCI. WCFI ceased operation on December 31, 2014.

**Idle Assets**

Idle assets pertain to fishing vessels that are no longer used in the Company's operations.

As at December 31, 2019 and 2018, idle assets were fully provided with an allowance. Total allowance for impairment losses for fishing vessels, including allowance for impairment losses previously recognized before reclassification to idle assets, amounted to $13.9 million.

**Investment in an Associate**

The Group has an effective 20% ownership interest in SSNZ. SSNZ is engaged in the farming of salmon in South Island of New Zealand and was incorporated in 2008.

Details of the investment are as follows:

| | Note | 2019 | 2018 |
|---|---|---|---|
| Acquisition cost | | **$27,319** | $27,319 |
| Accumulated equity in profits: | | | |
| Balance at beginning of year | | **94,475** | 91,014 |
| Equity in net income (loss) | 19 | **(4,853)** | 3,461 |
| Balance at end of year | | **89,622** | 94,475 |
| | | **$116,941** | $121,794 |

The results of operations (net income) of SNNZ amounted to $555,959, $36,526 and $130,406 for the years ended December 31, 2019, 2018 and 2017, respectively.

**Other Intangible Assets**

Other intangible assets pertain to macrocystic and salmon farming consents in New Zealand and a fishing license. Movements in this account are as follows:

| | Note | 2019 | 2018 |
|---|---|---|---|
| **Cost** | | **$269,066** | $269,066 |
| **Accumulated Amortization** | | | |
| Balance at beginning of year | | **105,761** | 97,849 |
| Amortization | 9 | **4,669** | 4,834 |
| Translation adjustment | | **(120)** | 3,078 |
| Balance at end of year | | **110,310** | 105,761 |
| | | **158,756** | 163,305 |
| **Less allowance for impairment losses** | | **(114,279)** | (114,279) |
| | | **$44,477** | $49,026 |

The carrying amount of intangible asset with indefinite useful life, which pertains to macrocystic consent, amounted to $20,220 and $19,937 at December 31, 2019 and 2018, respectively.

The total carrying amount of intangible assets with definite useful lives, which pertain to salmon farming consent and fishing license, amounted to $24,257 and $29,089 as at December 31, 2019 and 2018, respectively.

## 11. Trade and Other Payables

This account consists of:

| | Note | 2019 | 2018 |
|---|---|---|---|
| Trade payables: | | | |
| Third parties | | **$3,907,168** | $6,289,286 |
| Related parties | 13 | **603,655** | 534,259 |
| Accrued expenses: | | | |
| Professional fees | | **861,495** | 494,710 |
| Interest | | **109,758** | 168,531 |
| Salaries, wages and other benefits | | **56,117** | 373,057 |
| Freight | | **54,526** | 49,139 |
| Others | | **323,124** | 778,958 |
| Statutory payable | | **123,567** | 125,063 |
| Customers' deposits | | **120,549** | 266,689 |
| Others | | **22,743** | 60,066 |
| | | **$6,182,702** | $9,139,758 |

Trade payables are noninterest-bearing and are generally settled within 30 days.

Other accrued expenses include accruals for business development expenses, security services, commission, and customers' claims. Accrued expenses are usually settled in the following month.

Statutory payable includes amounts payable to government agencies such as SSS, PhilHealth and Pag-IBIG and are normally settled in the following month.

Customers' deposits pertain to advances from customers for the purchase of goods. These are recognized as revenue upon delivery of goods to customers.

## 12. Loans Payable

Details of the Group's loans payable are as follows:

**Short-term Loans**

| | Currency | Nominal interest rate | 2019 | 2018 |
|---|---|---|---|---|
| Local banks | USD | 3.25% - 5.80% | **$22,317,370** | $26,539,033 |
| Investment banks | PHP | 5.00% - 8.00% | **–** | 2,149,106 |
| | USD | 4.50% - 6.50% | **–** | 2,200,000 |
| | | | **22,317,370** | 30,888,139 |
| Add current portion of long-term loans | | | **26,304** | 29,157 |
| | | | **$22,343,674** | $30,917,296 |

Loans from local banks represent availments of revolving facilities, export packing credit, export bills purchase, import letters of credit and trust receipts, with terms ranging from three to six months.

*Loan Security.* Short term loans from local banks are secured by the Group's trade receivables and inventories as follows:

| | Note | 2019 | 2018 |
|---|---|---|---|
| Trade receivables | 6 | **$6,476,411** | $5,218,576 |
| Inventories | 7 | **9,579,281** | 11,763,776 |
| | | **$16,055,692** | $16,982,352 |

Loans from investment banks are unsecured promissory notes used to finance the Group's working capital requirements, with a renewable 90-day term.

**Long-term Loans**

| | 2019 | 2018 |
|---|---|---|
| Local banks | **$1,533,607** | $37,604 |
| Foreign financing corporation | **87,040** | 38,542 |
| | **1,620,647** | 76,146 |
| Less current portion | **26,304** | 29,157 |
| | **$1,594,343** | $46,989 |

Loans from local banks, which are denominated in Peso, bear annual interest rates ranging from 6.50% to 9.59%. Loans from foreign financing corporation, which are denominated in New Zealand Dollars, bear an annual interest of 7.15%.

*Loan Security.* The long-term loans are secured by transportation equipment with carrying amount of $17,411 and $90,154 as at December 31, 2019 and 2018, respectively (see Note 9).

A foreign financing corporation has facility agreement with Akaroa, being the Parent Company and a stockholder as guarantors. It has a registered security over the assets of Akoroa.

*Schedule of Principal Payments.* Principal payments to be paid within the next financial year and within two to five years amounted to $9,535 and $16,769, respectively.

**Interest Expense**

Interest expense from loans payable amounted to $1.94 million, $1.40 million and $751,487 in 2019, 2018 and 2017, respectively.

## 13. Related Party Transactions

The Group, in the normal course of business, has regular transactions with its related parties as summarized below:

| | | Amount of Transaction | | Outstanding Balance | |
|---|---|---|---|---|---|
| Related Party | Note | **2019** | 2018 | **2019** | 2018 |
| **Trade and other receivables** | 6 | | | | |
| Joint Venture | | **($480)** | ($30,600) | **$234,185** | $234,665 |
| Associate | | **(10,571)** | (546) | **–** | 10,571 |
| | | | | **$234,185** | $245,236 |
| **Other noncurrent assets** | 10 | | | | |
| Joint Venture | | **$418** | $– | **$2,183,281** | $2,182,863 |
| Allowance for impairment | | **–** | – | **(2,182,863)** | (2,182,863) |
| | | | | **$418** | $– |
| **Trade and other payables** | 11 | | | | |
| Joint Venture | | **($10,466)** | $181,477 | **$433,855** | $444,321 |
| Immediate Parent | | **79,862** | (20,216) | **169,800** | 89,938 |
| Associate | | **–** | 320,078 | **–** | – |
| | | | | **$603,655** | $534,259 |
| **Due to related parties** | | | | | |
| Immediate Parent | | **$2,000,000** | ($2,002,804) | **$2,000,000** | $– |
| Subsidiary's Stockholder | | **(91,530)** | (48,176) | **–** | 91,530 |
| | | | | **$2,000,000** | $91,530 |

<u>**Nature and Terms of Payment**</u>

*Trade and Other Receivables.* Receivable from joint venture pertains to working capital advances that are due on demand. These are settled in cash. Receivable from an associate pertains to receivable from tin cans returned.

*Trade and Other Payables.* Payable to FDCP pertains to unpaid tin can requirements. Payable to Immediate Parent pertains to various operating expenses. The outstanding balances are unsecured, noninterest-bearing and have no repayment terms. These are settled in cash.

Akaroa, another subsidiary, purchases smolts from SSNZ. These are settled upon billing.

*Due to Related Parties.* Payable to Immediate Parent pertains to borrowed funds amounting to $2.0 million, which bears 6.31% annual interest and payable on a lump sum basis in cash on 2022. In 2018, the Company fully paid the cash advances bearing 6.31% annual interest availed in 2017 for working capital requirements. Due to a subsidiary's stockholder, which bears 7.15% annual interest, pertains to working capital advances and are payable on demand.

The ultimate parent company is Seawood Resources, Inc., a domestic company engaged in investment activities.

Intercompany transactions eliminated in consolidation pertain to due to/from related parties and rental. Total due to/from related parties eliminated as at December 31, 2019 and 2018 amounted to \$16.12 million and \$16.87 million, respectively. Total rental receivable and payable eliminated as at December 31, 2019 and 2018 amounted to \$134,791 and \$18,309, respectively.

Total interest expense aggregated \$39,092, \$86,733 and \$36,060 in 2019, 2018 and 2017, respectively.

The remuneration of the key management personnel of the Group is composed of short-term and post-employment benefits. Short-term employee benefits amounted to \$496,178, \$492,042 and \$398,487 in 2019, 2018 and 2017, respectively. Post-employment benefits amounted to \$36,744, \$35,356 and \$35,934 in 2019, 2018 and 2017, respectively.

## 14. Retirement Benefits Obligation

The Group values its defined benefit obligation using the projected unit credit method. The benefit shall be payable to retirees who are at least 60 years old and with at least five years of credited service to the Group.

The Group has executed a Trust Agreement with a reputable local bank to establish the Group's retirement plan. The last actuarial valuation report was at December 31, 2018.

Retirement benefits costs are as follows (see Note 20):

| | **2019** | 2018 | 2017 |
|---|---|---|---|
| Current service cost | **\$82,822** | \$43,326 | \$42,325 |
| Net interest expense | **10,179** | 9,269 | 7,977 |
| | **\$93,001** | \$52,595 | \$50,302 |

The amounts included in the consolidated statements of financial position arising from the Group's obligations in respect of its retirement benefits obligation are as follows:

| | **2019** | 2018 |
|---|---|---|
| Present value of defined benefit obligation | **\$327,657** | \$262,808 |
| Fair value of plan assets | **(40,182)** | (39,674) |
| | **\$287,475** | \$223,134 |

Movements in the present value of defined benefit obligation are as follows:

| | **2019** | 2018 |
|---|---|---|
| Balance at beginning of year | **\$262,808** | \$276,817 |
| Current service cost | **82,822** | 43,326 |
| Interest cost | **12,182** | 11,735 |
| Unrealized foreign exchange gain - translation adjustment | **(30,155)** | (10,731) |
| Remeasurement gains: | | |
| Changes in financial assumptions | – | (47,442) |
| Experience adjustments | – | (10,897) |
| | **\$327,657** | \$262,808 |

Movements in the fair value of plan assets are as follows:

| | **2019** | 2018 |
|---|---|---|
| Balance at beginning of year | **$39,674** | $42,190 |
| Interest income | **2,003** | 2,106 |
| Translation adjustment | **(1,495)** | (2,088) |
| Remeasurement loss | **–** | (2,534) |
| | **$40,182** | $39,674 |

The analysis of the fair value of plan assets at the reporting dates is as follows:

| | **2019** | 2018 |
|---|---|---|
| Cash and cash equivalents | **$152** | $150 |
| Other assets | **40,030** | 56 |
| Debt instruments | **57** | 39,524 |
| Fees payables | **(4)** | (4) |
| Withholding taxes payable | **(53)** | (52) |
| | **$40,182** | $39,674 |

The principal assumptions used for the purposes of the actuarial valuations were as follows:

| | **2019** | 2018 |
|---|---|---|
| Discount rate | **4.64%** | 7.43% |
| Expected rate of salary increases | **6.00%** | 6.00% |

The sensitivity analyses on the retirement benefits obligation (RBO) as at December 31, 2019 and 2018 below have been determined based on possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

| | **2019** | | 2018 | |
|---|---|---|---|---|
| | **Change in Assumption** | **Increase (Decrease) on RBO** | Change in Assumption | Increase (Decrease) on RBO |
| Expected salary growth rate | **1.00%** | **$20,025** | 1.00% | $16,062 |
| Discount rate | **1.00%** | **(16,745)** | 1.00% | (13,431) |
| Improvement in employee turnover | **10.00%** | **2,411** | 10.00% | 1,934 |

The average duration of the benefit obligation on December 31, 2019 and 2018 is 19 years.

The cumulative remeasurement gains on retirement benefits obligation recognized in equity as at December 31 follows:

| | **2019** | 2018 | 2017 |
|---|---|---|---|
| Balance at beginning of year | **$87,276** | $55,190 | $55,190 |
| Remeasurement gain | **–** | 32,086 | – |
| Balance at end of year | **$87,276** | $87,276 | $55,190 |

Deferred tax liability related to the cumulative remeasurement gain or loss amounted to $26,183 as at December 31, 2018.

## 15. Equity

### Capital Stock

Details of the Parent Company's capital stock as at December 31, 2019 and 2018 are as follows:

| | **2019** | | 2018 | |
|---|---|---|---|---|
| | **Shares** | **Amount** | Shares | Amount |
| **Authorized** | | | | |
| Ordinary shares at ₱0.50 par value a share | | | | |
| Balance at beginning of year | **3,000,000,000** | **₱1,500,000,000** | 3,000,000,000 | ₱3,000,000,000 |
| Effect of equity restructuring | – | – | – | (1,500,000,000) |
| | **3,000,000,000** | **₱1,500,000,000** | 3,000,000,000 | ₱1,500,000,000 |
| **Issued and Outstanding** | | | | |
| Balance at beginning of year | **2,500,000,000** | **$26,823,389** | 2,500,000,000 | $53,646,778 |
| Effect of equity restructuring | – | – | – | (26,823,389) |
| | **2,500,000,000** | **26,823,389** | 2,500,000,000 | 26,823,389 |
| Treasury shares at cost | **(287,537)** | **(5,774)** | (287,537) | (5,774) |
| Balance at end of year | **2,499,712,463** | **$26,817,615** | 2,499,712,463 | $26,817,615 |

The Parent Company's track record of registration of securities is as follows:

| | Issue/Offer Price | Registration/Issue Date | Number of Shares Issued |
|---|---|---|---|
| Initial public offering | ₱1.35 | November 8, 2006 | 535,099,610 |
| Stock dividends | – | December 17, 2007 | 64,177,449 |
| Stock rights offer (SRO) | 1.00 | July 25, 2011 | 272,267,965 |
| Stock dividends | – | January 25, 2012 | 137,500,000 |
| Private placement | 1.60 | December 14, 2012 | 60,668,750 |
| Private placement | 1.31 | May 5, 2014 | 430,286,226 |
| SRO | 1.00 | October 28, 2015 | 1,000,000,000 |
| | | | 2,500,000,000 |

On March 23, 2018, the SEC approved the Parent Company's application for equity restructuring. Accordingly, the resulting APIC of $26.82 million from the equity restructuring and APIC of $6.66 million as at December 31, 2016, were used to fully wipe out the Parent Company's deficit amounting to $32.00 million as at December 31, 2017.

The total number of shareholders of the Parent Company as at December 31, 2019 and 2018 is 238 and 237, respectively.

The Group's non-controlling interests represent 0.02%, 20% and 1.11% ownership of PT IAFI & PT VDZ, Akaroa and AMHI, respectively. Non-controlling interests amounted to $2.24 million and $2.26 million as at December 31, 2019 and 2018, respectively.

The summarized financial information of subsidiary with significant non-controlling interest as at and for the years ended December 31, 2019, 2018 and 2017 follows:

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Total assets | **$7,266,881** | $2,779,457 | $2,679,662 |
| Total liabilities | **5,589,477** | 977,042 | 1,235,864 |
| Equity | **1,677,404** | 1,802,415 | 1,443,798 |
| Net income (loss) | **(218,546)** | 447,956 | 703,204 |

**Capital Management**

The primary objective of the Group's capital management is to ensure that it maintains a strong credit standing and stable capital ratios in order to support its business and maximize shareholder value. The Group maintains its current capital structure and will make adjustments, if necessary, in order to generate a reasonable level of returns to stockholders over the long term. No changes were made in the objectives, policies or processes during the year.

The Group considers the equity presented in the consolidated statements of financial position as its core capital.

The Group monitors capital using debt to equity ratio, which is total debt divided by total equity. The debt-to-equity ratio as at December 31, 2019 and 2018, follows:

| | 2019 | 2018 |
|---|---|---|
| Debt | **$36,508,252** | $40,747,913 |
| Equity | **31,299,760** | 36,290,739 |
| Debt-to-Equity Ratio | **$1.17:1** | $1.12:1 |

Pursuant to the PSE's rules on minimum public ownership, at least 10% of the issued and outstanding shares of a listed company must be owned and held by the public. The public ownership is about 32% as at December 31, 2019 and 2018.

The Group reviews its capital structure on an annual basis. As part of this review, the Group considers the cost of capital and the risks associated with it.

## 16. Net Revenue

Revenue is disaggregated to the following major product lines:

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Net sales of: | | | |
| Canned tuna | **$59,902,745** | $60,980,633 | $40,068,268 |
| Smoked salmon | **22,637,987** | 27,946,771 | 28,798,802 |
| Others | **2,342,071** | 8,206,332 | 3,260,973 |
| | **84,882,803** | 97,133,736 | 72,128,043 |
| Rent | **–** | – | 63,535 |
| | **$84,882,803** | $97,133,736 | $72,191,578 |

Others pertain mainly to sale of whole fish and by-products.

Revenue generated by the foreign subsidiaries comprises 24%, 27% and 39% of the total revenue of the Group in 2019, 2018 and 2017, respectively.

Sales of goods are recognized as revenue at the point of delivery.

## 17. Cost of Goods Sold

This account consists of:

| | Note | **2019** | 2018 | 2017 |
|---|---|---|---|---|
| Raw materials used | | **$62,679,025** | $70,306,206 | $49,313,797 |
| Direct labor | 20 | **8,717,521** | 8,197,621 | 6,657,414 |
| Manufacturing overhead: | | | | |
| Warehousing | | **1,928,449** | 1,921,466 | 954,299 |
| Fuel, light and water | | **1,416,267** | 1,303,706 | 1,460,274 |
| Labor | 20 | **920,427** | 967,342 | 646,116 |
| Depreciation and amortization | 9 | **817,814** | 928,685 | 1,029,724 |
| Rent | 22 | **334,613** | 359,147 | 440,557 |
| Others | | **2,537,795** | 2,445,842 | 2,166,402 |
| Total manufacturing costs | | **79,351,911** | 86,430,015 | 62,668,583 |
| Finished goods, beginning | 7 | **7,049,815** | 5,413,534 | 5,487,867 |
| Total cost of goods manufactured | | **86,401,726** | 91,843,549 | 68,156,450 |
| Finished goods, ending | 7 | **(9,696,307)** | (7,049,815) | (5,413,534) |
| | | **$76,705,419** | $84,793,734 | $62,742,916 |

Other manufacturing overhead consists of indirect labor, repairs and maintenance, outside services and insurance, among others.

## 18. Selling and Administrative Expenses

This account consists of:

| | Note | **2019** | 2018 | 2017 |
|---|---|---|---|---|
| Salaries, wages and other benefits | 20 | **$2,598,831** | $2,750,012 | $2,614,078 |
| Provisions for impairment losses | | **949,078** | 289,488 | 1,390,754 |
| Outside services | | **936,660** | 850,285 | 880,684 |
| Freight and transportation | | **927,000** | 1,282,641 | 1,214,118 |
| Advertising, marketing and commission | | **766,931** | 694,634 | 517,707 |
| Taxes and licenses | | **559,981** | 461,812 | 682,079 |
| Rent and utilities | | **350,196** | 170,029 | 162,449 |
| Buyer's claim | | **347,717** | 12,384 | 16,504 |
| Depreciation and amortization | 9 | **340,769** | 146,308 | 120,873 |
| Insurance | | **254,708** | 193,097 | 145,711 |
| Materials and supplies | | **89,814** | 115,620 | 95,718 |
| Others | | **442,258** | 375,086 | 276,449 |
| | | **$8,563,943** | $7,341,396 | $8,117,124 |

Provision for impairment losses pertains to trade and other receivables, inventories, other current assets and property, plant and equipment, respectively (see Notes 6, 7, 8 and 9).

Others include provision amounting to \$22,647, nil and \$215,898 in 2019, 2018 and 2017, respectively.

## 19. **Other Income (Charges)** - Net

This account consists of:

| | Note | **2019** | 2018 | 2017 |
|---|---|---|---|---|
| Loss on disposal of a subsidiary | 4 | **(\$2,422,707)** | \$– | \$– |
| Gain on disposal/retirement of property, plant and equipment | 9 | **1,072,550** | 1,338 | 58,618 |
| Foreign exchange gain | | **323,919** | 320,202 | 13,198 |
| Bank charges | | **(304,925)** | (235,567) | (154,146) |
| Interest income | | **75,099** | 65,426 | 70,965 |
| Equity in net income (loss) of an associate | 10 | **(4,853)** | 3,461 | 26,081 |
| Others | | **128,702** | (155,406) | 3,811 |
| | | **(\$1,132,215)** | (\$546) | \$18,527 |

Others pertain to shutdown costs, sale of scrap materials and duty rebates.

## 20. **Employee Benefits**

This account consists of:

| | Note | **2019** | 2018 | 2017 |
|---|---|---|---|---|
| Short-term employee benefits | | **\$12,143,778** | \$11,862,380 | \$9,867,306 |
| Post-employment benefits | 14 | **93,001** | 52,595 | 50,302 |
| | | **\$12,236,779** | \$11,914,975 | \$9,917,608 |
| Charged to: | | | | |
| Cost of goods sold | 17 | **\$9,637,948** | \$9,164,963 | \$7,303,530 |
| Selling and administrative expenses | 18 | **2,598,831** | 2,750,012 | 2,614,078 |
| | | **\$12,236,779** | \$11,914,975 | \$9,917,608 |

## 21. **Income (Loss) Per Share**

The calculation of the basic and diluted income (loss) per share is based on the following data:

| | **2019** | 2018 | 2017 |
|---|---|---|---|
| Net income (loss) attributable to Parent Company | **(\$5,084,520)** | \$2,524,265 | \$1,437,271 |
| Weighted average number of ordinary shares outstanding | **2,499,712,463** | 2,499,712,463 | 2,499,712,463 |
| | **(\$0.0020)** | \$0.0010 | \$0.0006 |

The weighted average number of shares refers to shares in circulation during the period that is after the effect of treasury shares.

As at December 31, 2019, 2018 and 2017, the Parent Company has no dilutive potential share.

## 22. Significant Agreements

Short-term Leases

The Group entered into operating leases with third parties for its forklifts, container van, warehouse and vehicles. The contracts have a term ranging from six months to one year with varying monthly rent. The leases are renewable upon mutual agreement between parties.

Rent expense is distributed as follows:

| | Note | **2019** | 2018 | 2017 |
|---|---|---|---|---|
| Cost of goods sold | 17 | **$334,613** | $359,147 | $440,557 |
| Selling and administrative expenses | | **129,689** | 79,524 | 61,136 |
| | | **$464,302** | $438,671 | $501,693 |

Long-term Leases

On August 13, 2018, the Parent Company reported its change of office address. ASFII entered into a new lease agreement for its head office space with a new third party lessor on July 16, 2018, effective until July 15, 2023 and renewable upon mutual agreement of the parties. The monthly rental for the first two (2) years shall be $4,171, subject to an annual escalation of 5%.

On October 14, 2019, Akaroa entered into a lease agreement with a third party for certain premises located at 69 Treffers Road, Wigram, Christchurch, New Zealand with an annual rental payment of $301,500 for 20 years with the rights of renewal for two of four years each.

The balance of movements in ROU assets follow:

| | Note | Total |
|---|---|---|
| Balance at beginning of year | 2 | $405,837 |
| Additions | | 3,751,554 |
| Amortization | 9 | (133,393) |
| | | $4,023,998 |

The balance of and movements in lease liabilities follow:

| | Note | Total |
|---|---|---|
| Balance at beginning of year | 2 | $397,346 |
| Additions | | 3,751,554 |
| Rental payments | | (188,704) |
| Interest | | 93,227 |
| Effect of foreign exchange loss | | 6,257 |
| Balance at end of year | | 4,059,680 |
| Less current portion | | 159,766 |
| Noncurrent portion | | $3,899,914 |

The incremental borrowing rate applied to the lease liabilities ranges from 3.00% to 9.54%. ROU assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments. The difference between the lease liabilities and ROU assets at initial recognition was adjusted to the opening retained earnings.

The amounts recognized in profit or loss are as follows:

| | Note | **2019** | 2018 |
|---|---|---|---|
| Rental | | **$2,106,621** | $438,671 |
| Amortization | 9 | **133,393** | – |
| Interest | | **93,227** | – |
| | | **$2,333,241** | $438,671 |

The future minimum lease payments and present value as at December 31, 2019 are as follows:

| | Minimum Lease Payments | Present Value |
|---|---|---|
| Not later than one year | $418,373 | $388,708 |
| Later than one year but not more than five years | 8,299,240 | 3,545,440 |
| | $8,717,613 | $3,934,148 |

## 23. Corporate Social Responsibility

The Parent Company has implemented a corporate social responsibility program to focus on the local workers' community welfare, as well as to promote a clean and healthy environment together with energy conservation. In 2019, the Parent Company partnered with Mindanao State University (General Santos City campus) to launch the Bay of Gold scholarship, which aims to provide financial assistance to Marine Biology students of this campus.

## 24. Income Taxes

Components of income tax expense (benefit) charged to profit or loss are as follows:

| | **2019** | 2018 | 2017 |
|---|---|---|---|
| Current | **$156,085** | $350,987 | $600,994 |
| Deferred | **1,421,717** | 539,670 | (1,601,528) |
| | **$1,577,802** | $890,657 | ($1,000,534) |

**Deferred Tax**

The components of the Group's deferred tax assets and deferred tax liabilities are as follows:

| | 2019 | 2018 |
|---|---|---|
| Deferred tax assets: | | |
| Allowance for impairment losses on: | | |
| Trade and other receivables and other noncurrent assets | **$7,159,431** | $7,164,870 |
| Inventories | **308,499** | 91,819 |
| Property, plant and equipment | **30,422** | 30,422 |
| MCIT | **257,778** | 258,198 |
| Retirement benefits obligation | **87,548** | 65,006 |
| Unrealized foreign exchange loss | **39,035** | 7,173 |
| Excess of depreciation and interest over rental payments | **5,302** | – |
| NOLCO | – | 1,463,693 |
| Accrued expenses | – | 352,242 |
| | **$7,888,015** | $9,433,423 |

| | 2019 | 2018 |
|---|---|---|
| Deferred tax liabilities: | | |
| Remeasurement gain on retirement benefits obligation | **$12,919** | $12,919 |
| Accrued rent | **4,289** | 5,493 |
| Accelerated depreciation | – | 94,000 |
| Unrealized foreign exchange gain | – | 30,132 |
| | **$17,208** | $142,544 |

Details of other deductible temporary differences for which no deferred tax assets were recognized are as follows:

| | 2019 | 2018 |
|---|---|---|
| Allowance on impairment on: | | |
| Trade and other receivables and other noncurrent assets | **$1,496,608** | $– |
| Property, plant and equipment | – | 479,117 |
| Inventories | – | 135,925 |
| NOLCO | **327,172** | 526,278 |
| MCIT | **154,246** | 13,751 |
| Excess of depreciation and interest over rental payments | **8,950** | – |
| Retirement benefits obligation | – | 1,934 |
| | **$1,986,976** | $1,157,005 |

The details of the Group's NOLCO, which can be claimed as deduction from taxable income are as follows:

| Inception Year | Amount | Applied | Expired | Balance | Expiry Year |
|---|---|---|---|---|---|
| 2019 | $301,800 | $– | $– | $301,800 | 2022 |
| 2018 | 485,396 | – | – | 485,396 | 2021 |
| 2017 | 303,379 | – | – | 303,379 | 2020 |
| 2016 | 5,844,461 | 752,331 | 5,092,130 | – | 2019 |
| | $6,935,036 | $752,331 | $5,092,130 | $1,090,575 | |

The details of the Group's MCIT, which can be claimed as deduction from income tax payable are as follows:

| Inception Year | Amount | Expired | Balance | Expiry Year |
|---|---|---|---|---|
| 2019 | $142,636 | $– | $142,636 | 2022 |
| 2018 | 166,110 | – | 166,110 | 2021 |
| 2017 | 100,687 | – | 100,687 | 2020 |
| 2016 | 5,152 | 5,152 | – | 2019 |
| | $414,585 | $5,152 | $409,433 | |

The reconciliation of provision for (benefit from) income tax computed at the statutory income tax rate and at effective income tax rate follows:

| | **2019** | 2018 | 2017 |
|---|---|---|---|
| Provision for (benefit from) income tax computed at statutory tax rate | **($1,066,221)** | $1,048,142 | $168,755 |
| Tax effects of: | | | |
| Expired NOLCO | **1,527,639** | 385,599 | 609,481 |
| Expenses exempt from taxation | **4,080** | 6,232 | 78,866 |
| Income exempt from taxation | **(1,794)** | (1,622) | (5,724) |
| Interest expense | **681** | 591 | 2,100 |
| Changes in unrecognized deferred tax assets | **829,971** | (1,097,035) | (421,446) |
| Effect of tax rate differences | **278,294** | 493,302 | 484,735 |
| Expired MCIT | **5,152** | 55,448 | 83,767 |
| | **$1,577,802** | $890,657 | $1,000,534 |

The Parent Company and BGB were subjected to MCIT aggregating $144,109, $172,109 and $100,743 in 2019, 2018 and 2017, respectively.

## 25. Fair Value of Financial Assets and Liabilities

The table below presents the carrying amounts and fair value of the Group's financial assets and financial liabilities as at December 31, 2019 and 2018.

| | **2019** | | 2018 | |
|---|---|---|---|---|
| | **Carrying Amount** | **Fair Value** | Carrying Amount | Fair Value |
| **Financial Assets** | | | | |
| At amortized cost: | | | | |
| Cash and cash equivalents | **$1,871,461** | **$1,871,461** | $7,012,332 | $7,012,332 |
| Trade and other receivables | **12,113,532** | **12,113,532** | 11,848,595 | 11,848,595 |
| Receivable from PFNZ* | **–** | **–** | 887,270 | 887,270 |
| | **$13,984,993** | **$13,984,993** | $19,748,197 | $19,748,197 |

**Under other noncurrent assets*

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | **Carrying Amount** | **Fair Value** | Carrying Amount | Fair Value |
| **Financial Liabilities** | | | | |
| At amortized cost: | | | | |
| Trade and other payables** | **$5,938,586** | **$5,938,586** | $8,748,006 | $8,748,006 |
| Loans payable | **23,938,017** | **23,938,017** | 30,964,285 | 30,964,285 |
| Lease liabilities | **4,059,680** | **4,059,680** | – | – |
| Due to related parties | **2,000,000** | **2,000,000** | 91,530 | 91,530 |
| | **$35,936,283** | **$35,936,283** | $39,803,821 | $39,803,821 |

***Excluding customers' deposits and statutory payable*

The following methods and assumptions are used to estimate the fair value of the Group's financial assets and liabilities:

*Cash and Cash Equivalents, Trade and Other Receivables (excluding Receivable from PFNZ), Trade and Other Payables (excluding Statutory Payable and Customers' Deposits) and Due to Related Parties.* The carrying amounts of these financial instruments approximate their fair values due to the relatively short-term maturity of these financial instruments. These financial assets and liabilities are classified under Level 3 of the fair value hierarchy groups of the consolidated financial statements.

*Receivable from PFNZ, Lease Liabilities and Loans Payable.* The fair values of these financial instruments are determined based on the discounted cash flow analysis using effective interest rates for similar types of instruments. The fair values of these financial instruments are estimated using significant and unobservable inputs (Level 3 hierarchy).

Generally, an increase or decrease in the incremental after-tax cash flows will result in an increase or decrease in the fair value of these financial asset and liabilities. An increase or decrease in discount rate will result in a decrease or increase in the fair value of these financial asset and liabilities.

The fair value hierarchy groups the financial instruments into Levels 1 to 3 based on the degree to which the fair value is observable. There were no transfers to other levels in 2019 and 2018.

## 26. Financial Risk Management Objectives and Policies

The Group's financial instruments consist of cash and cash equivalents, trade and other receivables, receivable from PFNZ, trade and other payables (excluding statutory payable and customers' deposit), loans payable and due to related parties. The main purpose of these financial instruments is to finance the Group's operations.

The Group is exposed to credit risk, market risk and liquidity risk. Group's BOD and management review and approve the policies for managing each of the risks summarized below.

**Credit Risk**

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

The table below shows the gross maximum exposure of the Group to credit risk before taking into consideration collateral and other credit enhancements:

| | 2019 | 2018 |
|---|---|---|
| Cash and cash equivalents | **$1,871,461** | $7,012,332 |
| Trade and other receivables | **14,151,784** | 13,895,545 |
| Receivable from PFNZ* | **–** | 887,270 |
| | **$16,023,245** | $21,795,147 |

**Under other noncurrent assets*

*Risk Management.* Credit risk is managed on a group basis. The Group deals only with reputable banks and customers to limit this risk. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, the Group assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the management. The compliance with credit limits by customers is regularly monitored by management.

As at December 31, 2019 and 2018, the amount of cash and cash equivalents is neither past due nor impaired and has classified as *"High Grade"*, while trade and other receivables and receivable from PFNZ under noncurrent assets were classified as *"Standard Grade"*. The credit quality of the financial assets is managed by the Group using the internal credit quality ratings as follows:

*High Grade.* Pertains to counterparty who is not expected by the Group to default in settling its obligations, thus credit risk exposure is minimal. This normally includes large prime financial institutions and companies. Credit quality was determined based on the credit standing of the counterparty.

*Standard Grade.* Other financial assets not belonging to high grade financial assets are included in this category.

*Substandard Grade.* Substandard grade financial assets are those which are considered worthless. These are accounts which have the probability of impairment based on historical trend.

*Impairment.* For trade and other receivables (excluding receivable from PFNZ), an impairment analysis is performed at each reporting date using a lifetime expected loss allowance to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

For receivable from PFNZ and other financial assets at amortized cost, the ECL is based on the 12-month ECL, which pertains to the portion of lifetime ECL that result from default events on a financial instrument that are possible within 12 months after the reporting date.

Receivable from PFNZ is secured with PFNZ's tangible and intellectual properties.

As at December 31, 2019 and 2018, the aging analysis of the Group's financial assets is as follows:

| | **2019** | | | | | |
|---|---|---|---|---|---|---|
| | | **Past Due Accounts but not Impaired** | | | | |
| | **Neither Past Due nor Impaired** | **1 - 30 Days Past Due** | **31 - 60 Days Past Due** | **Over 60 Days** | **Impaired Financial Assets** | **Total** |
| Cash in banks | **$1,856,977** | **$–** | **$–** | **$–** | **$–** | **$1,856,977** |
| Trade and other receivables | **7,831,644** | **476,272** | **32,938** | **3,772,678** | **2,038,252** | **14,151,784** |
| | **$9,688,621** | **$476,272** | **$32,938** | **$3,772,678** | **$2,038,252** | **$16,008,761** |

| | 2018 | | | | | |
|---|---|---|---|---|---|---|
| | | Past Due Accounts but not Impaired | | | | |
| | Neither Past Due nor Impaired | 1 - 30 Days Past Due | 31 - 60 Days Past Due | Over 60 Days | Impaired Financial Assets | Total |
| Cash in banks | $7,000,668 | $– | $– | $– | $– | $7,000,668 |
| Cash equivalents | 4,958 | – | – | – | – | 4,958 |
| Trade and other receivables | 7,978,428 | 2,277,696 | 888,407 | 704,064 | 2,046,950 | 13,895,545 |
| Receivable from PFNZ* | 887,270 | – | – | – | – | 887,270 |
| | $15,871,324 | $2,277,696 | $888,407 | $704,064 | $2,046,950 | $21,788,441 |

**Under noncurrent assets*

**Market Risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign currency risk and other price risk, such as equity price risk and commodity risk. Financial instruments affected by market risk include loans and borrowings, deposits and debt and equity investments.

The sensitivity analyses in the following sections relate to the position as at December 31, 2019 and 2018.

The following assumptions have been made in calculating the sensitivity analyses:

- The sensitivity of the relevant items in the statement of comprehensive income is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at December 31, 2019 and 2018.

- The sensitivity of equity is calculated by considering the effect of any associated cash flow hedges and hedges of a net investment in a foreign operation at December 31, 2019 for the effects of the assumed changes of the underlying risk.

*Foreign Currency Risk.* Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a foreign currency) and the Group's net investments in foreign subsidiaries.

The Group has transactional currency exposures arising from purchase and sale transactions denominated in currencies other than the reporting currency. The Group does not enter into forward contracts to hedge currency exposures.

As part of the Group's risk management policy, the Group maintains monitoring of the fluctuations in the foreign exchange rates, thus managing its foreign currency risk.

The carrying amounts of the Group's Philippine Peso and New Zealand Dollar denominated monetary assets and monetary liabilities at the reporting dates are as follows:

| | **2019** | | 2018 | |
|---|---|---|---|---|
| | **Philippine Peso** | **U.S. Dollar Equivalent** | Philippine Peso | U.S. Dollar Equivalent |
| Cash and cash equivalents | **₱24,033,809** | **$473,414** | ₱522,172 | $9,904 |
| Trade and other receivables | **8,445,243** | **166,353** | 965,329 | 18,309 |
| Trade and other payables | **108,429,630** | **2,135,829** | 16,587,507 | 314,610 |
| Lease liabilities | **7,694,856** | **151,572** | – | – |
| Loans payable | **852,577** | **16,838** | 114,766,629 | 2,182,705 |

| | **2019** | | 2018 | |
|---|---|---|---|---|
| | **New Zealand Dollar** | **U.S. Dollar Equivalent** | New Zealand Dollar | U.S. Dollar Equivalent |
| Cash and cash equivalents | **$80,954** | **$54,563** | $461,113 | $309,361 |
| Trade and other receivables | **1,096,560** | **739,081** | 769,230 | 516,076 |
| Trade and other payables | **1,124,317** | **757,790** | 727,485 | 488,070 |
| Loans payable | **1,024,145** | **690,274** | 57,448 | 38,542 |
| Lease liabilities | **5,798,380** | **3,908,108** | – | – |
| Due to a related party | **346,150** | **233,305** | 482,579 | 323,762 |

*Management's Assessment of the Reasonableness of Possible Change in Foreign Exchange Rates.* The sensitivity analysis includes outstanding foreign currency denominated monetary items adjusted and translated at period end for a 6% change in 2019 and 2018, respectively, in foreign currency rates.

*Foreign Currency Sensitivity Analysis.* The sensitivity analysis includes all of the Group's foreign currency denominated monetary assets and liabilities. A positive number below indicates an increase in net profit when the U.S. Dollar strengthens against the relevant currency. For a 6% weakening of the U.S. Dollar against the relevant currency, there would be an equal and opposite impact on the net profit and the balances on the following table would be negative.

The following table details the Group's sensitivity to a 4% and 6% change in the U.S. Dollar, with all the variables held constant, in 2019 and 2018, respectively:

| | Effect on Income for the Year | |
|---|---|---|
| | **2019** | 2018 |
| Cash and cash equivalents | **$21,119** | $19,156 |
| Trade and other receivables | **36,217** | 30,302 |
| Trade and other payables | **(115,745)** | (48,161) |
| Loans payable | **(28,284)** | (2,313) |
| Lease liabilities | **(162,387)** | – |
| Due to a related party | **(9,332)** | (19,426) |
| | **($258,412)** | ($20,442) |

*Interest Rate Risk.* Interest rate risk refers to the possibility that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The primary source of the Group's interest rate risk relates to debt instruments such as bank and mortgage loans. The interest rates on these liabilities are disclosed in Note 12.

Management believes that any variation in the interest will not have a material impact on the net profit of the Group. Bank and mortgage loans amounting to $23.94 million and $30.96 million as at December 31, 2019 and 2018, respectively, agreed at interest rates ranging from approximately 3.25% to 5.40% for bank loans and 6.50% to 9.59% per annum for long-term loans; expose the Group to fair value interest rate risk.

The Group has no floating interest rate. The Group is not exposed to cash flow interest rate risk.

**Liquidity Risk**

Liquidity risk arises from the possibility that the Group may encounter difficulties in raising funds to meet commitments from financial instruments. It may result from either the inability to sell assets quickly at fair values or failure to collect from counterparty.

The Group's objective is to maintain a balance between continuity of funding and flexibility through related party advances and aims to manage liquidity as follows:

a. To ensure that adequate funding is available at all times;

b. To meet commitments as they arise without recurring unnecessary costs; and

c. To be able to assess funding when needed at the least possible cost.

The following tables detail the Group's remaining contractual maturities for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal.

| | **2019** | | | |
|---|---|---|---|---|
| | **Weighted Average Effective Interest Rate** | **Within One Year** | **More than One Year** | **Total** |
| Trade and other payables* | **–** | **$5,938,586** | **$–** | **$5,938,586** |
| Loans payable | **4.50% - 9.59%** | **22,343,674** | **1,594,343** | **23,938,017** |
| Lease liabilities | **3.00% - 9.54%** | **159,766** | **3,899,914** | **4,059,680** |
| Due to related parties | **6.50% - 7.15%** | **–** | **2,000,000** | **2,000,000** |
| Future interest | **4.50& – 9.59%** | **274,796** | **4,732,838** | **5,007,634** |
| | | **$28,716,822** | **$12,227,095** | **$40,943,917** |

**Excluding statutory payable and customers' deposits*

| | 2018 | | | |
|---|---|---|---|---|
| | Weighted Average Effective Interest Rate | Within One Year | More than One Year | Total |
| Trade and other payables* | – | $8,748,006 | $– | $8,748,006 |
| Loans payable | 4.50% - 9.59% | 30,917,296 | 46,989 | 30,964,285 |
| Due to related parties | 6.50% - 7.15% | 91,530 | – | 91,530 |
| Future interest | 4.50% - 9.59% | 2,919 | 2,266 | 5,185 |
| | | $39,759,751 | $49,255 | $39,809,006 |

**Excluding statutory payable and customers' deposit*

## 27. Operating Segment Information

The primary segment reporting format is presented based on the business segments in which the Group's risks and rates of return are affected predominantly by differences in the products and services provided. The Group is organized into three major operating business segments (tuna, salmon and rental) in 2019, 2018 and 2017 which is consistent with how the Group's management internally monitors and analyzes financial information.

Revenue from by-products and other products is attributable to tuna and salmon operating segments.

Financial information about reportable segments are as follows:

| | December 31, 2019 | | | |
|---|---|---|---|---|
| | **Tuna** | **Salmon** | **Rental** | **Total** |
| **Segment revenue** | **$62,240,501** | **$22,733,372** | **$134,791** | **$85,108,664** |
| **Inter-segment revenue** | **–** | **(91,070)** | **(134,791)** | **(225,861)** |
| **Net revenue** | **$62,240,501** | **$22,642,302** | **$–** | **$84,882,803** |
| **Segment results** | | | | |
| **Loss before income tax** | **($3,003,765)** | **($469,804)** | **($80,502)** | **($3,554,071)** |
| **Provision for income tax** | **1,421,243** | **155,424** | **1,135** | **1,577,802** |
| **Net loss** | **($4,425,008)** | **($625,228)** | **($81,637)** | **($5,131,873)** |
| **Total assets** | **$52,603,463** | **$12,160,789** | **$3,043,760** | **$67,808,012** |
| **Total liabilities** | **($22,738,855)** | **($11,294,319)** | **($2,475,078)** | **($36,508,252)** |
| **Net cash flows from:** | | | | |
| **Operating activities** | **($6,272,095)** | **($1,060,291)** | **($162,746)** | **($7,495,132)** |
| **Investing activities** | **9,623,248** | **(25,903)** | **–** | **9,597,345** |
| **Financing activities** | **(8,558,629)** | **1,090,409** | **160,875** | **(7,307,345)** |
| **Other information:** | | | | |
| **Depreciation and amortization** | **$671,075** | **$487,508** | **$–** | **$1,158,583** |
| **Other noncash income - net** | **(264,884)** | **(42,935)** | **–** | **(307,819)** |

| | December 31, 2018 | | | |
|---|---|---|---|---|
| | Tuna | Salmon | Rental | Total |
| Segment revenue | $69,184,544 | $28,006,825 | $155,484 | $97,346,853 |
| Inter-segment revenue | – | (57,633) | (155,484) | (213,117) |
| Net revenue | $69,184,544 | $27,949,192 | $– | $97,133,736 |
| Segment results | | | | |
| Income (loss) before income tax | $3,396,857 | $73,376 | $23,573 | $3,493,806 |
| Provision for income tax | 807,621 | 71,025 | 12,011 | 890,657 |
| Net income (loss) | $2,589,236 | $2,351 | $11,562 | $2,603,149 |
| Total assets | $53,058,387 | $15,533,972 | $8,446,293 | $77,038,652 |
| Total liabilities | $39,397,909 | $1,009,246 | $340,758 | $40,747,913 |
| Net cash flows from: | | | | |
| Operating activities | ($3,210,399) | $3,529,923 | ($98,007) | $221,517 |
| Investing activities | 1,047,349 | (1,444,304) | – | (396,955) |
| Financing activities | 1,858,800 | 833,365 | 105,909 | 2,798,074 |
| Other information: | | | | |
| Depreciation and amortization | $544,088 | $530,905 | $– | $1,074,993 |
| Other noncash income - net | (92,568) | 110,008 | – | 17,440 |

| | December 31, 2017 | | | |
|---|---|---|---|---|
| | Tuna | Salmon | Rental | Total |
| Segment revenue | $43,416,969 | $28,787,881 | $144,925 | $72,349,775 |
| Inter-segment revenue | – | (77,341) | (80,856) | (158,197) |
| Net revenue | $43,416,969 | $28,710,540 | $64,069 | $72,191,578 |
| Segment results | | | | |
| Income (loss) before income tax | ($884,747) | $1,607,920 | ($160,655) | $562,518 |
| Provision for income tax | (1,640,864) | 623,705 | 16,625 | (1,000,534) |
| Net income (loss) | $756,117 | $984,215 | ($177,280) | $1,563,052 |
| Total assets | $41,183,305 | $21,036,287 | $8,298,978 | $70,518,570 |
| Total liabilities | $33,623,685 | $2,963,647 | $242,740 | $36,830,072 |
| Net cash flows from: | | | | |
| Operating activities | ($10,008,715) | $3,281,839 | ($567) | ($6,727,443) |
| Investing activities | (804,533) | (441,465) | – | (1,245,998) |
| Financing activities | 8,720,522 | (3,675,812) | – | 5,044,710 |
| Other information: | | | | |
| Depreciation and amortization | $663,544 | $487,053 | $– | $1,150,597 |
| Other noncash income - net | 1,294,249 | 15,842 | – | 1,310,091 |

Geographical information about reportable segments follows:

| | **December 31, 2019** | | | | |
|---|---|---|---|---|---|
| | **Philippines** | **Indonesia** | **USA** | **New Zealand** | **Total** |
| **Segment sales** | **$64,970,403** | **$313,364** | **$14,550,192** | **$5,274,705** | **$85,108,664** |
| **Inter-segment revenue** | **(134,791)** | **–** | **–** | **(91,070)** | **(225,861)** |
| **Total net sales** | **$64,835,612** | **$313,364** | **$14,550,192** | **$5,183,635** | **$84,882,803** |
| **Segment noncurrent assets*** | **$10,688,751** | **$–** | **$273,719** | **$2,481,379** | **$13,443,849** |
| **Inter-segment noncurrent assets** | **3,613,148** | **–** | **–** | **–** | **3,613,148** |
| **Total noncurrent assets** | **$14,301,899** | **$–** | **$273,719** | **$2,481,379** | **$17,056,997** |

**Includes property, plant and equipment and other noncurrent assets.*

| | December 31, 2018 | | | | |
|---|---|---|---|---|---|
| | Philippines | Indonesia | USA | New Zealand | Total |
| Segment sales | $70,932,988 | $1,031,511 | $19,649,212 | $5,733,142 | $97,346,853 |
| Inter-segment revenue | (137,199) | – | – | (75,918) | (213,117) |
| Total net sales | $70,795,789 | $1,031,511 | $19,649,212 | $5,657,224 | $97,133,736 |
| Segment noncurrent assets* | $27,879,729 | $1,078,436 | $525,852 | $1,731,406 | $31,215,423 |
| Inter-segment noncurrent assets | (14,119,634) | (49,000) | – | 94,475 | (14,074,159) |
| Total noncurrent assets | $13,760,095 | $1,029,436 | $525,852 | $1,825,881 | $17,141,264 |

**Includes property, plant and equipment and other noncurrent assets.*

| | December 31, 2017 | | | | |
|---|---|---|---|---|---|
| | Philippines | Indonesia | USA | New Zealand | Total |
| Segment sales | $44,088,592 | $2,096,774 | $20,272,332 | $5,892,077 | $72,349,775 |
| Inter-segment revenue | (80,856) | – | – | (77,341) | (158,197) |
| Total net sales | $44,007,736 | $2,096,774 | $20,272,332 | $5,814,736 | $72,191,578 |
| | | | | | |
| Segment noncurrent assets* | $10,539,224 | $2,406,639 | $546,006 | $1,370,131 | $14,862,000 |
| Inter-segment noncurrent assets | 3,823,242 | (1,090,400) | – | 91,014 | 2,823,856 |
| Total noncurrent assets | 14,362,466 | $1,316,239 | $546,006 | $1,461,145 | $17,685,856 |

**Includes property, plant and equipment and other noncurrent assets.*

The Group has no revenues from transactions with a single external customer accounting for 10% or more of its revenues from external customers.

## 28. Reconciliation of Liabilities Arising From Financing Activities

The table below details changes in the Group's liabilities arising from financing activities, including cash and noncash changes:

| | | | Financing Cash Flows | | | | |
|---|---|---|---|---|---|---|---|
| | 2018 | Availments | Expense | Payments | Application of Prepaid Rent | Foreign exchange gain | 2019 |
| Loans payable | $30,964,285 | $60,742,942 | $– | ($67,769,210) | $– | $– | $23,938,017 |
| Due to related parties | 91,530 | 2,000,000 | – | (91,530) | – | – | 2,000,000 |
| Lease liabilities | – | 4,162,879 | 93,227 | (188,704) | (13,979) | 6,257 | 4,059,680 |
| Interest payable | 168,531 | – | 1,942,070 | (2,000,843) | – | – | 109,758 |
| | $31,224,346 | $66,905,821 | $2,035,297 | ($70,050,287) | ($13,789) | $6,257 | $30,107,455 |

| | | | Financing Cash Flows | | | |
|---|---|---|---|---|---|---|
| | 2017 | Availments | Expense | Payments | Foreign exchange gain | 2018 |
| Loans payable | $24,365,255 | $48,426,236 | $– | ($41,805,631) | ($21,575) | $30,964,285 |
| Due to related parties | 2,142,510 | – | – | (2,050,980) | – | 91,530 |
| Interest payable | 435,828 | – | 1,504,254 | (1,771,551) | – | 168,531 |
| | $26,943,593 | $48,426,236 | $1,504,254 | ($45,628,162) | ($21,575) | $31,224,346 |

## 29. Events after the Reporting Period

In March 2020, the COVID-19 outbreak was declared to be a global pandemic by the World Health Organization causing the government to declare the country in a state of public health emergency followed by the implementation of mandated lockdown all over the country resulting in a slowdown in the Philippine economy.

Management has determined that such event has no impact on the Group's consolidated financial statements as at and for the year ended December 31, 2019. Although, the Group anticipates that the COVID-19 will have a material impact on its business operations, financial condition, results of operations, and cash flows in 2020, the impact cannot be reasonably estimated as at June 10, 2020. The Group continues to monitor the situation closely and may implement further measures to provide additional financial flexibility and improve the Group's cash position and liquidity.

Notwithstanding the situation, the Group strongly believes that it can remain a going concern given the essential nature of its business and its access to short-term and long-term funding.

# REPORT OF INDEPENDENT AUDITORS TO ACCOMPANY CONSOLIDATED FINANCIAL STATEMENTS FOR FILING WITH THE SECURITIES AND EXCHANGE COMMISSION

The Stockholders and the Board of Directors
Alliance Select Foods International, Inc.
Suite 3104A, West Tower
Philippine Stock Exchange Centre
Exchange Road, Ortigas Avenue, Pasig City

We have audited the accompanying consolidated financial statements of Alliance Select Foods International, Inc. (a subsidiary of Strongoak Inc.) and Subsidiaries as at December 31, 2019 and 2018 and for the years ended December 31, 2019, 2018 and 2017, on which we have rendered our report dated June 10, 2020.

In compliance with the Revised Securities Regulation Code Rule 68, we are stating that Alliance Select Foods International, Inc. has two hundred twenty-three (223) and two hundred twenty-two (222) stockholders owning one hundred (100) or more shares each as at December 31, 2019 and 2018, respectively.

**REYES TACANDONG & CO.**

EMMANUEL V. CLARINO
Partner
CPA Certificate No. 27455
Tax Identification No. 102-084-004-000
BOA Accreditation No. 4782; Valid until August 15, 2021
SEC Accreditation No. 27455-SEC Group A
Valid until January 27, 2025
BIR Accreditation No. 08-005144-005-2019
Valid until October 16, 2022
PTR No. 8116470
Issued January 6, 2020, Makati City

June 10, 2020
Makati City, Metro Manila

## INDEPENDENT AUDITORS REPORT ON COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS

The Stockholders and the Board of Directors
Alliance Select Foods International, Inc.
Suite 3104A, West Tower
Philippine Stock Exchange Centre
Exchange Road, Ortigas Avenue, Pasig City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Alliance Select Foods International, Inc. (a subsidiary of Strongoak Inc.) and Subsidiaries (the "Group") as at December 31, 2019 and 2018 and for the years ended December 31, 2019, 2018 and 2017, and have issued our report thereon dated June 10, 2020. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Group's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for purposes of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic consolidated financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Group's consolidated financial statements as at December 31, 2019 and 2018 and for the years ended December 31, 2019, 2018 and 2017 and no material exceptions were noted.

**REYES TACANDONG & CO.**

EMMANUEL V. CLARINO
Partner
CPA Certificate No. 27455
Tax Identification No. 102-084-004-000
BOA Accreditation No. 4782; Valid until August 15, 2021
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Valid until October 16, 2022
PTR No. 8116470
Issued January 6, 2020, Makati City

June 10, 2020
Makati City, Metro Manila

## ALLIANCE SELECT FOODS INTERNATIONAL, INC. AND SUBSIDIARIES
**(A Subsidiary of Strongoak Inc.)**

## FINANCIAL SOUNDNESS INDICATORS
**DECEMBER 31, 2019**

Below is a schedule showing financial soundness indicators of the Group as at December 31, 2019, 2018 and 2017 and for the years ended December 31, 2019, 2018 and 2017.

| Ratio | Formula | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| Current ratio | | | | |
| | Current assets | **$36,785,169** | $40,961,380 | $33,608,806 |
| | Divide by: Current liabilities | **28,709,312** | 40,243,716 | 36,358,322 |
| | Current Ratio | **1.28** | 1.02 | 0.92 |
| Acid test ratio | | | | |
| | Current assets | **$36,785,169** | $40,961,380 | $33,608,806 |
| | Less: Inventories | **12,659,074** | 13,945,762 | 14,154,871 |
| | Other current assets | **10,141,102** | 8,154,691 | 5,612,224 |
| | Quick assets | **13,984,993** | 18,860,927 | 13,841,711 |
| | Divide by: Current liabilities | **28,709,312** | 40,243,716 | 36,358,322 |
| | Acid Test Ratio | **0.49** | 0.47 | 0.38 |
| Solvency ratio | | | | |
| | Income (loss) before tax | **($3,554,071)** | $3,493,806 | $562,518 |
| | Add: Depreciation and amortization | **1,158,583** | 1,074,993 | 1,150,597 |
| | Net income before depreciation and amortization | **(2,395,488)** | 4,568,799 | 1,713,115 |
| | Divide by: Total liabilities | **36,508,252** | 40,747,913 | 36,830,072 |
| | Solvency Ratio | **(0.07)** | 0.11 | 0.05 |
| Debt-to-equity ratio | | | | |
| | Total liabilities | **$36,508,252** | $40,747,913 | $36,830,072 |
| | Divide by: Total equity | **31,299,760** | 36,290,739 | 33,688,498 |
| | Debt-to-Equity Ratio | **1.17** | 1.12 | 1.09 |
| Asset-to-equity ratio | | | | |
| | Total assets | **$67,808,012** | $77,038,652 | $70,518,570 |
| | Divide by: Total equity | **31,299,760** | 36,290,739 | 33,688,498 |
| | Asset-to-Equity Ratio | **2.17** | 2.12 | 2.09 |
| Interest rate coverage ratio | | | | |
| | Income (loss) before tax | **($3,554,071)** | $3,493,806 | $562,518 |
| | Add: interest expense | **2,035,297** | 1,504,254 | 787,547 |
| | Pretax income (loss) before interest | **(1,518,774)** | 4,998,060 | 1,350,065 |
| | Divide by: Interest expense | **2,035,297** | 1,504,254 | 787,547 |
| | Interest Rate Coverage Ratio | **(0.75)** | 3.32 | 1.71 |

| Ratio | Formula | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| Return on equity | | | | |
| | Net income (loss) attributable to equity holders of the Parent Company | **($5,084,520)** | $2,524,265 | $1,437,271 |
| | Equity: | | | |
| | Beginning of year | **36,290,739** | 33,688,498 | 32,112,207 |
| | End of year | **31,299,760** | 36,290,739 | 33,688,498 |
| | Divide by | | | |
| | Average equity | **33,795,250** | 34,989,619 | 32,900,353 |
| | Return on Equity | **(0.15)** | 0.07 | 0.04 |
| Return on assets | | | | |
| | Net income (loss) | **($5,131,873)** | $2,603,149 | $1,563,052 |
| | Total assets: | | | |
| | Beginning of year | **77,038,652** | 70,518,570 | 59,861,287 |
| | End of year | **67,808,012** | 77,038,652 | 70,518,570 |
| | Divide by | | | |
| | Average assets | **72,423,332** | 73,778,611 | 65,189,929 |
| | Return on Assets | **(0.07)** | 0.04 | 0.02 |
| Net profit margin | | | | |
| | Net income (loss) | **($5,131,873)** | $2,603,149 | $1,563,052 |
| | Revenue | **84,882,803** | 97,133,736 | 72,191,578 |
| | Net Profit Margin | **(0.06)** | 0.03 | 0.02 |

BOA/PRC Accreditation No. 4782
October 4, 2018, valid until August 15, 2021
SEC Accreditation No. 0207-FR-3 (Group A)
August 29, 2019, valid until August 28, 2022

Phone
Fax
Website

## REPORT OF INDEPENDENT AUDITORS' ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
Alliance Select Foods International, Inc.
Suite 3104A, West Tower
Philippine Stock Exchange Centre
Exchange Road, Ortigas Avenue, Pasig City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Alliance Select Foods International, Inc. (a subsidiary of Strongoak Inc.) and Subsidiaries (the "Group") as at December 31, 2019 and 2018 and for the years ended December 31, 2019, 2018 and 2017, and have issued our report thereon dated June 10, 2020.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying Supplementary Schedules are the responsibility of the Group's management. These supplementary schedules include the following:

- Reconciliation of Retained Earnings Available for Dividend Declaration as at December 31, 2019
- Supplementary Schedules as Required by Part II of the Revised Securities Regulation Code Rule 68 as at December 31, 2019
- Conglomerate Map as at December 31, 2019

These schedules are presented for the purpose of complying with the Revised Securities Regulation Code Rule 68, and are not part of the basic consolidated financial statements. The supplementary schedules have been subjected to the auditing procedures applied in our audits of the consolidated basic financial statements and, in our opinion, fairly state, in all material respects, the financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

**REYES TACANDONG & CO.**

EMMANUEL V. CLARINO
Partner
CPA Certificate No. 27455
Tax Identification No. 102-084-004-000
BOA Accreditation No. 4782; Valid until August 15, 2021
SEC Accreditation No. 27455-SEC Group A
Valid until January 27, 2025
BIR Accreditation No. 08-005144-005-2019
Valid until October 16, 2022
PTR No. 8116470
Issued January 6, 2020, Makati City

June 10, 2020
Makati City, Metro Manila

**ALLIANCE SELECT FOODS INTERNATIONAL, INC. AND SUBSIDIARIES**
**(A Subsidiary of Strongoak Inc.)**

**SUPPLEMENTARY SCHEDULE OF RECONCILIATION OF RETAINED EARNINGS OF PARENT COMPANY**
**DECEMBER 31, 2019**

| | | |
|---|---|---|
| **Retained earnings available for dividend declaration at beginning of year, as adjusted** | | (\$37,274,227) |
| **Less net loss actually realized during the year:** | | |
| Net loss during the year closed to retained earnings | (\$1,424,314) | |
| Provision for income tax - deferred | 1,007,593 | (416,721) |
| **Retained earnings at end of year available for dividend declaration** | | **(\$37,690,948)** |

| | | |
|---|---|---|
| *Reconciliation:* | | |
| Retained earnings at end of year | | \$2,069,605 |
| Less: | | |
| Net deferred tax assets at end of year | (\$31,998,844) | |
| Effect of equity restructuring | (7,794,872) | |
| Effect of adoption of PFRS 16 | 33,163 | (39,760,553) |
| Total retained earnings available for dividend declaration at end of year | | (\$37,690,948) |

**ALLIANCE SELECT FOODS INTERNATIONAL, INC. AND SUBSIDIARIES**
**(A Subsidiary of Strongoak Inc.)**

**SUPPLEMENTARY SCHEDULES AS REQUIRED BY PART II of SRC RULE 68 AS AMENDED**
**DECEMBER 31, 2019**

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SCHEDULE A

## ALLIANCE SELECT FOODS INTERNATIONAL, INC. AND SUBSIDIARIES

**(A Subsidiary of Strongoak Inc.)**

**FINANCIAL ASSETS**

**DECEMBER 31, 2019**

| Description | Number of Shares or Principal Amount of bonds and notes | Amount Shown in the Statement of Financial Position | Income received and accrued |
|---|---|---|---|
| Cash in banks | $– | $1,856,977 | $75,099 |
| Trade receivables | – | 9,352,484 | – |
| Receivable from PFNZ | – | 1,063,666 | – |
| Due from related parties | – | 234,185 | – |
| Other nontrade receivables | – | 1,463,198 | – |
| | $– | $13,970,510 | $75,099 |

**SCHEDULE B**

## ALLIANCE SELECT FOODS INTERNATIONAL, INC. AND SUBSIDIARIES

**(A Subsidiary of Strongoak Inc.)**

**AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)**

**DECEMBER 31, 2019**

| Name and designation of debtor | Balance at beginnning of year | Additions | Amounts collected | Amounts written off | Current | Not current | Balance at end of year |
|---|---|---|---|---|---|---|---|
| Advances to employees | $3,610 | $86,337 | $75,107 | $– | $14,840 | $– | $14,840 |

SCHEDULE C

## ALLIANCE SELECT FOODS INTERNATIONAL, INC. AND SUBSIDIARIES
(A Subsidiary of Strongoak Inc.)

### AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF THE FINANCIAL STATEMENTS
DECEMBER 31, 2019

| Name and designation of debtor | Balance at beginnning of year | Additions | Amounts collected | Amounts written off | Other changes Additions (Deductions) | Current | Not current | Balance at end of year |
|---|---|---|---|---|---|---|---|---|
| Due from related parties: | | | | | | | | |
| Parent | $13,191,872 | $2,988,253 | $3,745,830 | $– | $18,128 | $12,452,423 | $– | $12,452,423 |
| Subsidiaries | 3,674,590 | 33,474 | 23,120 | – | – | 3,684,944 | – | 3,684,944 |
| | $16,866,462 | $3,021,727 | $3,768,950 | $– | $18,128 | $16,137,367 | $– | $16,137,367 |

**SCHEDULE D**

## ALLIANCE SELECT FOODS INTERNATIONAL, INC. AND SUBSIDIARIES
**(A Subsidiary of Strongoak Inc.)**

### INTANGIBLE ASSETS - OTHER ASSETS
**DECEMBER 31, 2019**

| | | | Deduction | | | |
|---|---|---|---|---|---|---|
| Description | Beginning balance | Additions at cost | Charged to cost and expenses | Charged to other accounts | Other changes additions (deductions) | Ending balance |
| Consents and licenses | $48,674 | $– | $4,600 | $– | $120 | $44,194 |
| Development expenditure | 352 | – | 69 | – | – | 283 |
| | $49,026 | $– | $4,669 | $– | $120 | $44,477 |

Note: The intangible assets are presented as part of "Other noncurrent assets" in the statements of financial position.

**SCHEDULE E**

## ALLIANCE SELECT FOODS INTERNATIONAL, INC. AND SUBSIDIARIES
**(A Subsidiary of Strongoak Inc.)**

### LONG-TERM DEBT
**DECEMBER 31, 2019**

| Title of Issue and Type of Obligation | Amount Shown as Current | Amount Shown as Long-Term | Total |
|---|---|---|---|
| Bank loans – secured | $26,304 | $1,594,343 | $1,620,647 |

Note: The terms, interest rate, collaterals and other relevant information are shown in Note 12 of the Consolidated Financial Statements.

**SCHEDULE H**

## ALLIANCE SELECT FOODS INTERNATIONAL, INC. AND SUBSIDIARIES

(A Subsidiary of Strongoak Inc.)

### CAPITAL STOCK

DECEMBER 31, 2019

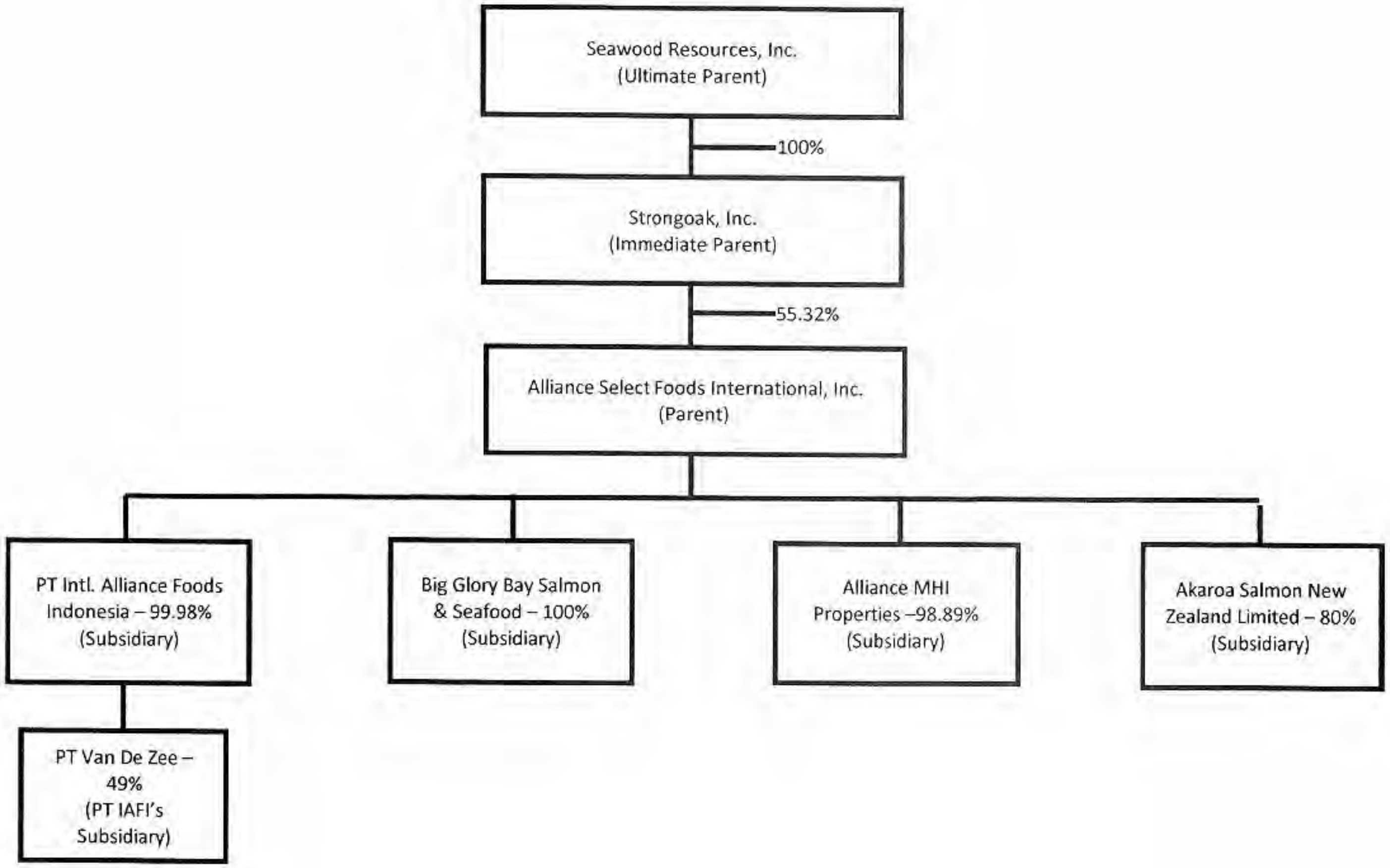
| | | | | *Number of shares held by* | | |
|---|---|---|---|---|---|---|
| *Title of Issue* | *Number of shares authorized* | *Number of shares issued and outstanding as shown under the related statement of financial position caption* | *Number of shares reserved for options, warrants, conversion and other rights* | *Related parties* | *Directors, officers and employees* | *Others* |
| Common stock – ₱0.50 par value | 3,000,000,000 | 2,499,712,463 | – | 1,700,741,296 | 2,568,531 | 796,402,636 |

# ALLIANCE SELECT FOODS INTERNATIONAL, INC. AND SUBSIDIARIES

**(A Subsidiary of Strongoak Inc.)**

**CORPORATE STRUCTURE**

**DECEMBER 31, 2019**



# COVER SHEET
## for
## AUDITED FINANCIAL STATEMENTS

SEC Registration Number

C S 2 0 0 3 1 9 1 3 8

**COMPANY NAME**

A L L I A N C E   S E L E C T   F O O D S   I N T E R N A T I O N A L ,
I N C .   ( A   S u b s i d i a r y   o f   S t r o n g o a k   I n c
. )

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

S u i t e   3 1 0 4 A ,   W e s t   T o w e r ,   P h i l i p p i n e
S t o c k   E x c h a n g e   C e n t r e ,   E x c h a n g e   R o a d
,   O r t i g a s   A v e n u e ,   P a s i g   C i t y

| Form Type | Department requiring the report | Secondary License Type, If Applicable |
|---|---|---|
| A S F S | C R M D | N / A |

**COMPANY INFORMATION**

| Company's Email Address | Company's Telephone Number/s | Mobile Number |
|---|---|---|
| info@allianceselectfoods.com | (02) 7-747-3798 | – |

| No. of Stockholders | Annual Meeting (Month / Day) | Fiscal Year (Month / Day) |
|---|---|---|
| 238 | June 15 | December 31 |

**CONTACT PERSON INFORMATION**

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

| Name of Contact Person | Email Address | Telephone Number/s | Mobile Number |
|---|---|---|---|
| Mr. Raymond K.H. See | info@allianceselectfoods.com | (02) 7-747-3798 | – |

**CONTACT PERSON'S ADDRESS**

Suite 3104A, West Tower, Philippine Stock Exchange Centre, Exchange Road, Ortigas Avenue, Pasig City

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

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

REYES TACANDONG & CO.
FIRM PRINCIPLES. WISE SOLUTIONS.

BOA/PRC Accreditation No. 4782
October 4, 2018, valid until August 15, 2021
SEC Accreditation No. 0207-FR-3 (Group A)
August 29, 2019, valid until August 28, 2022

Citibank Tower
8741 Paseo de Roxas
Makati City 1226 Philippines
Phone +632 8 982 9100
Fax +632 8 982 9111
Website www.reyestacandong.com

## INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Alliance Select Foods International, Inc.
Suite 3104A, West Tower
Philippine Stock Exchange Centre
Exchange Road, Ortigas Avenue, Pasig City

*Opinion*

We have audited the accompanying separate financial statements of Alliance Select Foods International, Inc. (a subsidiary of Strongoak Inc.) (the "Company"), which comprise the separate statements of financial position as at December 31, 2019 and 2018, and the separate statements of comprehensive income, separate statements of changes in equity and separate statements of cash flows for the years ended December 31, 2019, 2018 and 2017 and the notes to separate financial statements, including a summary of significant accounting policies.

In our opinion, the separate financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years ended December 31, 2019, 2018 and 2017 in accordance with Philippine Financial Reporting Standards (PFRS).

*Basis for Opinion*

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

*Emphasis of Matter – Events after the Reporting Period*

We draw attention to Note 28 to the separate financial statements which describes the uncertainty related to the impact of the novel coronavirus ("COVID-19") pandemic to the Company's financial position and results of operations as at and for the year ending December 31, 2020. Notwithstanding the situation, management believes that the Company can continue as a going concern given the essential nature of its business and its ability to obtain short-term and long-term funding. Our opinion is not modified in respect of this matter.

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

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

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

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

*Auditors' Responsibilities for the Audit of the Separate Financial Statements*

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

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

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the separate financial statements including disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

**REYES TACANDONG & CO.**

EMMANUEL V. CLARINO
Partner
CPA Certificate No. 27455
Tax Identification No. 102-084-004-000
BOA Accreditation No. 4782; Valid until August 15, 2021
SEC Accreditation No. 27455-SEC Group A
Valid until January 27, 2025
BIR Accreditation No. 08-005144-005-2019
Valid until October 16, 2022
PTR No. 8116470
Issued January 6, 2020, Makati City

June 10, 2020
Makati City, Metro Manila

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of **ALLIANCE SELECT FOODS INTERNATIONAL, INC.** is responsible for the preparation and fair presentation of the separate financial statements including the schedules attached therein for the years ended December 31, 2019 and 2018, in accordance with the prescribed financial reporting framework indicate d therein, and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors is responsible in overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the separate financial statements including the schedules attached therein, and submits the same to the stockholders.

**Reyes Tacandong & Co.**, the independent auditor appointed by the stockholders, has audited the separate financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

**ANTONIO C. PACIS**
Chairman of the Board

**RAYMOND K.H. SEE**
President and Chief Executive Officer

**MA. CRISTINA C. VILLARUZ**
Group Controller

Signed this 10th day of June 2020

**REPUBLIC OF THE PHILIPPINES )**
**PASIG CITY )S.S.**

SUBSCRIBED AND SWORN to before me, in Pasig City, on June 10, 2020, the affiants exhibiting to me their government issued identifications as follows:

| NAME | Government issued ID | |
|---|---|---|
| Antonio C. Pacis | Passport No. P4501467B | Valid until January 22, 2030 |
| Raymond K.H. See | Passport No. P2678380B | Valid until July 29, 2029 |
| Ma. Cristina C. Villaruz | Passport No. P3443139A | Valid until June 20, 2022 |

WITNESS MY HAND AND SEAL, this June 10, 2020, at Pasig City.

Notary Public

ATTY. GINO MARCO P. BAUTISTA
Notary Public for Pasig, San Juan, and Pateros
Commission No. 106 (2020-2021)
Until December 31, 2021
3104 A, West Tower, Phil. Stock Exchange Centre,
Exchange Road, Ortigas Center, Pasig City
PTR No. 6533463/1-17-2020/Pasig City
IBP No. 097335/12-12-2019/Quezon City
Roll of Attorneys No. 58507
MCLE Compliance No. VI-0025935; 4-29-2019

Doc No. : 449;
Page No.: 91 ;
Book No.: I ;
Series of 2020.

GINO MARCO P. BAUTISTA
PASIG
SAN JUAN
PATEROS
PHILS.
ROLL NO. 58507

**From:** eafs@bir.gov.ph <eafs@bir.gov.ph>
**Sent:** Thursday, June 25, 2020 2:13 PM
**To:** Exim, Kirsten Marie <kmexim@allianceselectfoods.com>
**Cc:** See, Raymond <rkhsee@allianceselectfoods.com>
**Subject:** Your BIR AFS eSubmission uploads were received

Hi ALLIANCESELECT,

**Valid files**

- EAFS227409243AFS2019.pdf
- EAFS227409243ITR2019.pdf
- EAFS227409243OTH2019-02.pdf
- EAFS227409243OTH2019-01.pdf

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## ALLIANCE SELECT FOODS INTERNATIONAL, INC.
(A Subsidiary of Strongoak Inc.)

## SEPARATE STATEMENTS OF FINANCIAL POSITION

| | Note | December 31 2019 | 2018 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash | 4 | **\$1,263,394** | \$2,042,243 |
| Trade and other receivables | 5 | **9,787,419** | 9,468,730 |
| Inventories | 6 | **11,519,275** | 12,301,744 |
| Due from related parties | 13 | **5,803,109** | 6,524,430 |
| Other current assets | 7 | **9,387,524** | 7,567,802 |
| Total Current Assets | | **37,760,721** | 37,904,949 |
| **Noncurrent Assets** | | | |
| Investments in subsidiaries | 8 | **8,798,598** | 18,039,544 |
| Property, plant and equipment | 9 | **5,339,401** | 3,247,162 |
| Deferred tax assets - net | 24 | **7,794,872** | 8,792,516 |
| Other noncurrent assets | 10 | **1,651,498** | 1,598,782 |
| Total Noncurrent Assets | | **23,584,369** | 31,678,004 |
| | | **\$61,345,090** | \$69,582,953 |
| **LIABILITIES AND EQUITY** | | | |
| **Current Liabilities** | | | |
| Trade and other payables | 11 | **\$4,780,073** | \$6,485,169 |
| Current portion of lease liabilities | 22 | **151,346** | – |
| Loans payable | 12 | **21,740,440** | 30,901,646 |
| Income tax payable | | **20,467** | 58,011 |
| Total Current Liabilities | | **26,692,326** | 37,444,826 |
| **Noncurrent Liabilities** | | | |
| Net of current portions: | | | |
| Lease liabilities | 22 | **396,258** | – |
| Loans payable | 12 | **1,507,303** | 24,097 |
| Due to Parent Company | 13 | **2,000,000** | – |
| Net retirement benefit obligation | 14 | **271,730** | 189,029 |
| Total Noncurrent Liabilities | | **4,175,291** | 213,126 |
| Total Liabilities | | **30,867,617** | 37,657,952 |
| **Equity** | | | |
| Capital stock | 15 | **26,823,389** | 26,823,389 |
| Additional paid-in capital (APIC) | 15 | **1,486,546** | 1,486,546 |
| Retained earnings | | **2,069,605** | 3,517,133 |
| Other comprehensive income | 14 | **103,707** | 103,707 |
| | | **30,483,247** | 31,930,775 |
| Treasury shares | 15 | **(5,774)** | (5,774) |
| Total Equity | | **30,477,473** | 31,925,001 |
| | | **\$61,345,090** | \$69,582,953 |

*See accompanying Notes to Separate Financial Statements.*

## ALLIANCE SELECT FOODS INTERNATIONAL, INC.

(A Subsidiary of Strongoak Inc.)

# SEPARATE STATEMENTS OF COMPREHENSIVE INCOME

| | | Years Ended December 31 | | |
|---|---|---|---|---|
| | Note | **2019** | 2018 | 2017 |
| NET SALES | 16 | **\$62,232,185** | \$68,153,033 | \$41,320,195 |
| COST OF GOODS SOLD | 17 | **(57,332,771)** | (60,177,697) | (36,967,178) |
| GROSS PROFIT | | **4,899,414** | 7,975,336 | 4,353,017 |
| SELLING AND ADMINISTRATIVE EXPENSES | 18 | **(4,796,877)** | (3,416,303) | (3,267,039) |
| INTEREST EXPENSE | 12 | **(1,938,307)** | (1,478,821) | (769,302) |
| OTHER INCOME (CHARGES) - Net | 19 | **1,554,993** | 746,393 | (10,929,749) |
| INCOME (LOSS) BEFORE INCOME TAX | | **(280,777)** | 3,826,605 | (10,613,073) |
| PROVISION FOR (BENEFIT FROM) INCOME TAX | 24 | | | |
| Current | | **135,944** | 162,817 | 94,961 |
| Deferred | | **1,007,593** | 644,804 | (1,735,825) |
| | | **1,143,537** | 807,621 | (1,640,864) |
| NET INCOME (LOSS) | | **(1,424,314)** | 3,018,984 | (8,972,209) |
| OTHER COMPREHENSIVE INCOME | | | | |
| *Item that will not be reclassified subsequently to profit or loss* | | | | |
| Remeasurement gain on retirement benefits cost (net of tax effect) | 14 | **–** | 30,144 | – |
| TOTAL COMPREHENSIVE INCOME (LOSS) | | **(\$1,424,314)** | \$3,049,128 | (\$8,972,209) |
| INCOME (LOSS) PER SHARE | | | | |
| Basic and diluted income (loss) per share | 21 | **(\$0.00057)** | \$0.00121 | (\$0.00359) |

*See accompanying Notes to Separate Financial Statements.*

## ALLIANCE SELECT FOODS INTERNATIONAL, INC.

(A Subsidiary of Strongoak Inc.)

## SEPARATE STATEMENTS OF CHANGES IN EQUITY

| | | Years Ended December 31 | | |
|---|---|---|---|---|
| | Note | **2019** | 2018 | 2017 |
| **CAPITAL STOCK** | 15 | | | |
| Balance at beginning of year | | **$26,823,389** | $53,646,778 | $53,646,778 |
| Effect of equity restructuring | | **–** | (26,823,389) | – |
| Balance at end of year | | **26,823,389** | 26,823,389 | 53,646,778 |
| **APIC** | 15 | | | |
| Balance at beginning of year | | **1,486,546** | 6,662,001 | 6,662,001 |
| Effect of equity restructuring | | **–** | 26,823,389 | – |
| Application of APIC against deficit | | **–** | (31,998,844) | – |
| Balance at end of year | | **1,486,546** | 1,486,546 | 6,662,001 |
| **RETAINED EARNINGS (DEFICIT)** | | | | |
| Balance at beginning of year | | **3,517,133** | (31,500,695) | (22,528,486) |
| Effect of adoption of PFRS 16, net of tax effect | 2 | **(23,214)** | – | – |
| Balance at beginning of year, as restated | | **3,493,919** | (31,500,695) | (22,528,486) |
| Application of APIC against deficit | 15 | **–** | 31,998,844 | – |
| Net income (loss) | | **(1,424,314)** | 3,018,984 | (8,972,209) |
| Balance at end of year | | **2,069,605** | 3,517,133 | (31,500,695) |
| **OTHER COMPREHENSIVE INCOME** | 14 | | | |
| Balance at beginning of year | | **103,707** | 73,563 | 73,563 |
| Remeasurement gain on retirement benefit obligation | | **–** | 30,144 | – |
| Balance at end of year | | **103,707** | 103,707 | 73,563 |
| **TREASURY SHARES** | | | | |
| Balance at beginning and end of year | 15 | **(5,774)** | (5,774) | (5,774) |
| | | **$30,477,473** | $31,925,001 | $28,875,873 |

*See accompanying Notes to Separate Financial Statements.*

## ALLIANCE SELECT FOODS INTERNATIONAL, INC.

(A Subsidiary of Strongoak Inc.)

## SEPARATE STATEMENTS OF CASH FLOWS

| | | Years Ended December 31 | | |
|---|---|---|---|---|
| | Note | **2019** | 2018 | 2017 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Income (loss) before income tax | | **($280,777)** | $3,826,605 | ($10,613,073) |
| Adjustments for: | | | | |
| Interest expense | 12 | **1,979,226** | 1,478,821 | 769,302 |
| Gain on disposal of investment in a subsidiary | 8 | **(983,994)** | – | – |
| Provision for impairment losses | 18,19 | **874,601** | 182,024 | 11,954,497 |
| Depreciation and amortization | 9 | **584,738** | 427,002 | 378,691 |
| Interest income | 4,13,22 | **(138,094)** | (150,137) | (263,613) |
| Unrealized foreign exchange loss (gain) | | **128,697** | (100,440) | 18,366 |
| Retirement benefits cost | 14 | **89,825** | 48,743 | 46,423 |
| Gain on reversal of allowance | 13 | **(18,128)** | – | – |
| Loss (gain) on disposal of equipment | 19 | **(3,110)** | 294 | (627) |
| Operating income before working capital changes | | **2,232,984** | 5,712,912 | 2,289,966 |
| Decrease (increase) in: | | | | |
| Trade and other receivables | | **(318,689)** | (3,009,423) | (2,635,866) |
| Inventories | | **(92,132)** | (995,671) | (6,192,629) |
| Other current assets | | **(1,833,701)** | (2,234,309) | (4,316,253) |
| Other noncurrent assets | | **(77,405)** | 75,611 | (64,688) |
| Increase (decrease) in trade and other payables | | **(1,748,161)** | (324,884) | 3,627,819 |
| Net cash used for operations | | **(1,837,104)** | (775,764) | (7,291,651) |
| Income taxes paid | | **(173,488)** | (290,439) | (1,484) |
| Interest received | | **138,094** | 150,137 | 32,815 |
| Net cash flows from operating activities | | **(1,872,498)** | (916,066) | (7,260,320) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Proceeds from sale of: | | | | |
| Investment in a subsidiary | 8 | **10,224,940** | – | – |
| Property, plant and equipment | 9 | **11,896** | – | 627 |
| Additions to property, plant and equipment | 9 | **(2,052,555)** | (345,221) | (888,050) |
| Cash collected from related parties | 13 | **604,939** | 1,308,426 | – |
| Cash advances to related parties | | **–** | – | (1,006,166) |
| Net cash flows from investing activities | | **8,789,220** | 963,205 | (1,893,589) |

(Forward)

| | Note | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| | | **Years Ended December 31** | | |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Proceeds from: | | | | |
| Availment of loans | 27 | **$60,647,571** | $48,406,144 | $29,122,545 |
| Issuance of promissory notes | 13 | **3,000,000** | – | 2,450,000 |
| Advances from Parent Company | 13 | **2,000,000** | – | 2,002,804 |
| Payments of: | | | | |
| Bank loans | 27 | **(68,325,571)** | (41,777,955) | (25,608,602) |
| Promissory notes | 13 | **(3,000,000)** | (3,450,000) | – |
| Interest | | **(1,968,462)** | (1,397,088) | (786,161) |
| Lease liabilities | 22 | **(49,109)** | – | – |
| Advances from Parent Company | 13 | **–** | (2,002,804) | – |
| Net cash flows from financing activities | | **(7,695,571)** | (221,703) | 7,180,586 |
| **EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH** | | **–** | (8,324) | 11,536 |
| **NET DECREASE IN CASH** | | **(778,849)** | (182,888) | (1,961,787) |
| **CASH AT BEGINNING OF YEAR** | | **2,042,243** | 2,225,131 | 4,186,918 |
| **CASH AT END OF YEAR** | | **$1,263,394** | $2,042,243 | $2,225,131 |

| | Note | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| **COMPONENTS OF CASH** | 4 | | | |
| Cash on hand | | **$1,988** | $1,382 | $1,602 |
| Cash in banks | | **1,261,406** | 2,040,861 | 2,223,529 |
| | | **$1,263,394** | $2,042,243 | $2,225,131 |

| | Note | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| **SUPPLEMENTARY INFORMATION ON NONCASH ACTIVITIES** | | | | |
| Recognition of: | 2 | | | |
| Lease liabilities | | **$652,392** | $– | $– |
| Right-of-use (ROU) assets | | **633,208** | – | – |
| Rental payable offset against due from related parties | 13 | **134,510** | – | 584,348 |
| Application of APIC against deficit as a result of the equity restructuring | 15 | **–** | 31,998,844 | – |

*See accompanying Notes to Separate Financial Statements.*

## NOTES TO SEPARATE FINANCIAL STATEMENTS

### 1. Corporate Information

**General Information**

Alliance Select Foods International, Inc. (ASFII or the "Company"), a public corporation under Section 17.2 of the Securities Regulation Code, was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on September 1, 2003. The Company is primarily engaged in the business of manufacturing, canning, importing and exporting of food products such as marine, aquaculture and other processed seafood. Its shares are listed on the Philippine Stock Exchange (PSE) since November 8, 2006.

Strongoak Inc. (Strongoak or the "Parent Company") owns 1,382,765,864 ASFII common shares, representing 55.32% ownership. Strongoak is a domestic company engaged in investment activities.

In August 2018, the Company notified the SEC for the change in its registered office address and principal place of business to Suite 3104A, West Tower, Philippine Stock Exchange Centre, Exchange Road, Ortigas Avenue, Pasig City. The Company has a plant located in General Santos City, Philippines.

**Investments in Subsidiaries**

The Company has investments in the following subsidiaries as at December 31, 2019 and 2018:

| | % of Ownership | | | Principal Place of |
|---|---|---|---|---|
| Name of Subsidiary | **2019** | 2018 | Nature of Business | Business |
| Big Glory Bay Salmon and Seafood Company, Inc. (BGB) | **100** | 100 | Salmon and other seafoods processing | Philippines |
| PT International Alliance Food Indonesia (PT IAFI)* | **99.98** | 99.98 | Export trading | Indonesia |
| Alliance MHI Properties, Inc. (AMHI) | **98.89** | 98.89 | Leasing | Philippines |
| Akaroa Salmon (NZ) Ltd. (Akaroa) | **80** | 80 | Salmon farming and processing | New Zealand |
| PT Van De Zee (PT VDZ) | **49** | 49 | Fishing | Indonesia |
| ASFI Thailand** | **–** | 100 | Sales office | Thailand |
| Spence & Company Ltd. (Spence)*** | **–** | 100 | Salmon and other seafoods processing | United States of America (USA) |

**In 2019, PT IAFI changed its nature of business from canned fish processing*
***Closed in 2019*
****Divested in 2019 (see Note 8)*

*BGB.* BGB has plant facilities that are located in Barrio Tambler, General Santos City.

*PT IAFI and PT VDZ.* PT IAFI was established under the Indonesian Foreign Capital Investment Law. In October 2019, the plant and machinery of PT IAFI was sold to an Indonesian entity.

PT IAFI owns 49% of PT VDZ, a fishing company. PT VDZ ceased operations in 2016.

*Akaroa.* Akaroa holds 25% stake in Salmon Smolt NZ Ltd. (SSNZ), an entity operating a modern hatchery, which quarantines and consistently supplies high quality smolts (juvenile salmon) for Akaroa's farm.

**Approval of Separate Financial Statements**

The separate financial statements of the Company were approved and authorized for issuance by the Board of Directors (BOD) on June 10, 2020.

## 2. Summary of Significant Accounting and Reporting Policies

The significant accounting policies used in the preparation of separate financial statements have been consistently applied to all the years presented, unless otherwise stated.

**Basis of Preparation and Statement of Compliance**

The separate financial statements of the Company have been prepared on a going concern basis and in accordance with Philippine Financial Reporting Standards (PFRS). This financial reporting framework includes all applicable PFRS, Philippine Accounting Standards (PAS), and Philippine Interpretations from the International Financial Reporting Interpretations Committee (IFRIC) and adopted by the SEC.

The Company also prepares and issues consolidated financial statements in compliance with PFRS for the same period as the separate financial statements. These may be obtained at the registered office address of the Company or at the SEC.

**Bases of Measurement**

The separate financial statements of the Company are presented in United States (U.S.) Dollar, the Company's functional currency. All amounts are rounded to the nearest U.S. Dollar, except when otherwise indicated.

The separate financial statements have been prepared on a historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for an asset and the fair value of the consideration received in exchange for incurring a liability.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company uses observable market data to the extent possible when measuring the fair value of an asset or a liability.

Fair values are categorized into different levels in a fair value hierarchy based on inputs used in the valuation techniques as follows:

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

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting year during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in Note 25 to the separate financial statements.

**Adoption of New and Amended PFRS**

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new and amended PFRS which the Company adopted effective January 1, 2019:

- PFRS 16, *Leases* – PFRS 16 replaced PAS 17, *Leases*, Philippine Interpretation on IFRIC 4, *Determining whether an Arrangement contains a Lease*, SIC-15, *Operating Leases-Incentives*, and SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. PFRS 16 requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17 and sets out the principles for the recognition, measurement, presentation and disclosure of leases. The standard provides two recognition exemptions for lessees from this PFRS – leases of low-value assets and short-term leases (i.e., leases with a lease term of 12 months or less).

  At the commencement date of a lease, the lessee shall recognize a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. The lessee is required to recognize the interest on the lease liability and to amortize the ROU asset.

  The lease liability shall be reviewed when there are changes in the lease term and other events affecting the lease, such as future lease payments resulting from a change in the index or rate used to determine those payments. The remeasurement of the lease liability should be recognized as an adjustment to the ROU asset.

  Lessor accounting under PFRS 16 is substantially unchanged from accounting under PAS 17. The lessor shall continue to classify leases using the same classification principle as in PAS 17 to distinguish the two types of leases: operating and finance leases.

  The Company has adopted PFRS 16 using the modified retrospective method, which requires that the cumulative effect of applying the new standard is recognized at the beginning of the year of initial application. Accordingly, the comparative information presented for 2018 and 2017 have not been restated.

  The Company recognized ROU assets and lease liabilities for property leases on its office and plant. The lease liabilities were measured at the present value of the remaining lease payments while ROU assets were measured at the assets' carrying value as if PFRS 16 had been applied since the commencement date of the lease.

  ROU assets and lease liabilities were discounted using the Company's incremental borrowing rate at the date of initial application. The incremental borrowing rate applied as at January 1, 2019 is 9.54%.

  The Company elected to apply the recognition exemption on the Company's leases of forklifts, container van and warehouse, which are either categorized as low-value assets or short-term leases. The related lease expenses on these lease agreements are recognized in profit or loss on a straight-line basis.

The Company's operating lease commitments as at December 31, 2018 are reconciled to the recognized lease liabilities as at January 1, 2019, as follows:

| | |
|---|---|
| Operating lease commitments as at December 31, 2018 | $788,728 |
| Effect of discounting using incremental borrowing rate | (136,336) |
| Lease liabilities as at January 1, 2019 | $652,392 |

The following table summarizes the ROU assets presented under "Property, plant and equipment" and lease liabilities recognized as at January 1, 2019:

| | |
|---|---|
| Plant | $445,849 |
| Office | 187,359 |
| Total ROU assets | $633,208 |
| | |
| Current portion of lease liabilities, net of prepaid rent of $13,979 | $104,788 |
| Noncurrent portion of lease liabilities | 547,604 |
| Total lease liabilities | $652,392 |

Deferred tax asset and adjustment to opening retaining earnings recognized as at January 1, 2019 amounted to $9,949 and $23,214, respectively.

- Philippine Interpretation on IFRIC 23, *Uncertainty Over Income Tax Treatments* – The interpretation provides guidance on how to reflect the effects of uncertainty in accounting for income taxes under PAS 12, *Income Taxes,* in particular (i) whether uncertain tax treatments should be considered separately, (ii) assumptions for taxation authorities' examinations, (iii) determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, and (iv) effect of changes in facts and circumstances.

- Amendments to PFRS 9, *Financial Instruments - Prepayment Features with Negative Compensation* – The amendments clarify that a financial asset passes the "solely payments of principal and interest" criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. Consequently, financial assets with termination provisions can now be measured at amortized cost (or, depending on the business model, at fair value through other comprehensive income).

- Amendments to PAS 19, *Employee Benefits - Plan Amendment, Curtailment or Settlement* – The amendments specify how companies remeasure a defined benefit plan when a change - an amendment, curtailment or settlement - to a plan takes place during a reporting period. It requires entities to use the updated assumptions from this remeasurement to determine current service cost and net interest cost for the remainder of the reporting period after the change to the plan.

- Amendments to PAS 28, *Investments in Associates and Joint Ventures - Long-term Interests in Associates and Joint Ventures* – The amendments require entities to use PFRS 9 in accounting for its long-term interests (i.e., preference shares and long-term receivables or loans for which settlement is neither planned nor likely to occur in the foreseeable future) in an associate or joint venture in which the equity method under PAS 28 is not applied. The clarification is relevant because the expected credit loss model under PFRS 9 shall be applied to these long-term interests.

Under prevailing circumstances, the adoption of the foregoing new and amended PFRS, except for PFRS 16, did not have any material effect on the separate financial statements of the Company. Additional disclosures were included in the separate financial statements, as applicable.

**Amended PFRS Issued But Not Yet Effective**
Relevant amended PFRS, which are not yet effective as at December 31, 2019 and have not been applied in preparing the separate financial statements, are summarized below.

Effective for annual periods beginning on or after January 1, 2020:

- Amendments to References to the Conceptual Framework in PFRS – The amendments include a new chapter on measurement, guidance on reporting financial performance, improved definitions and guidance-in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurements uncertainty in financial reporting. The amendments should be applied retrospectively unless retrospective application would be impracticable or involve undue cost or effort.

- Amendments to PAS 1, *Presentation of Financial Statements* and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Material* – The amendments clarify the definition of "material" and how it should be applied by companies in making materiality judgments. The amendments ensure that the new definition is consistent across all PFRS. Based on the new definition, an information is "material" if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

Under prevailing circumstances, the adoption of the foregoing amended PFRS is not expected to have any material effect on the separate financial statements of the Company. Additional disclosures will be included in the separate financial statements, as applicable.

**Financial Assets and Liabilities**

**Recognition and Measurement**

*Date of Recognition*. The Company recognizes a financial asset or a financial liability in the separate statement of financial position when it becomes a party to the contractual provisions of a financial instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

*Initial Recognition and Measurement*. Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated at fair value through profit and loss (FVPL), includes transaction cost.

*"Day 1" Difference.* Where the transaction in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a "Day 1" difference) in profit or loss. In cases where there is no observable market data on inception, the Company deems the transaction price as the best estimate of fair value and recognizes "Day 1" difference in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the "Day 1" difference.

**Classification**

The Company classifies its financial assets at initial recognition under the following categories: (a) financial assets at FVPL, (b) financial assets at amortized cost and (c) financial assets at fair value through other comprehensive income (FVOCI). Financial liabilities, on the other hand, are classified as either financial liabilities at FVPL or financial liabilities at amortized cost. The classification of a financial instrument largely depends on the Company's business model and its contractual cash flow characteristics.

As at December 31, 2019 and 2018, the Company does not have financial assets and liabilities at FVPL and financial assets at FVOCI.

*Classification of Financial Instruments between Liability and Equity.* A financial instrument is classified as liability if it provides for a contractual obligation to:

- Deliver cash or another financial asset to another entity;

- Exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Company; 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 Company 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.

*Financial Assets at Amortized Cost.* Financial assets shall be measured at amortized cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method, less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the financial assets are derecognized and through amortization process. Financial assets at amortized cost are included under current assets if realizability or collectability is within 12 months after the reporting period. Otherwise, these are classified as noncurrent assets.

As at December 31, 2019 and 2018, the Company's cash, trade and other receivables, due from related parties and other noncurrent assets (excluding idle assets and investments in joint ventures) are classified under this category.

*Financial Liabilities at Amortized Cost.* Financial liabilities are categorized as financial liabilities at amortized cost when the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

These financial liabilities are initially recognized at fair value less any directly attributable transaction costs. After initial recognition, these financial liabilities are subsequently measured at amortized cost using the effective interest 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 effective interest rate. Gains and losses are recognized in profit or loss when the liabilities are derecognized or through the amortization process.

As at December 31, 2019 and 2018, the Company's trade and other payables (excluding customers' deposits and statutory payable), lease liabilities, loans payable and due to Parent Company are classified under this category.

**Reclassification**
The Company reclassifies its financial assets when, and only when, it changes its business model for managing those financial assets. The reclassification is applied prospectively from the first day of the first reporting period following the change in the business model (reclassification date).

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVPL, any gain or loss arising from the difference between the previous amortized cost of the financial asset and fair value is recognized in profit or loss.

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVOCI, any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in other comprehensive income.

**Impairment of Financial Assets at Amortized Cost**
The Company records an allowance for "expected credit loss" (ECL). ECL is based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive. The difference is then discounted at an approximation to the asset's original effective interest rate.

For trade and other receivables, the Company has applied the simplified approach and has calculated ECL based on the lifetime ECL. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other financial assets at amortized cost, the Company has applied the general approach and ECL computation is based on the 12-month ECL, which pertains to the portion of lifetime ECL that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since initial recognition, the allowance will be based on the lifetime ECL. When determining whether the credit risk of a financial asset has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition.

**Derecognition**

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

- the right to receive cash flows from the asset has expired;
- the Company retains the right to receive cash flows from the financial 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 Company has transferred its right to receive cash flows from the financial asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

**Offsetting**

Financial assets and financial liabilities are offset and the net amount is reported in the separate statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is 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, and the related assets and liabilities are presented gross in the separate statement of financial position.

**Inventories**

Inventories are initially measured at cost. Subsequently, inventories are stated at the lower of cost and net realizable value (NRV). Cost is determined using weighted average method.

*Raw and Packaging Materials and Parts and Supplies.* Costs include all costs directly attributable to the acquisition. NRV is the current replacement cost.

*Finished Goods.* Costs of finished goods include direct materials and when applicable, direct labor and manufacturing overhead that have been incurred in bringing the inventories to their present location and condition. NRV represents the estimated selling price less estimated costs of completion and costs necessary to make the sale.

At each reporting date, inventories are assessed for impairment. When the NRV of the inventories is lower than the cost, the Company provides for an allowance for the decline in the value of the inventory and recognizes the write-down as an expense in profit or loss. The amount of any reversal of any write-down of inventories, arising from an increase in NRV, is recognized as part of other income or charges in the separate statement of comprehensive income.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the year when the related revenue is recognized and the related allowance for impairment is reversed.

**Other Assets**

*Advances to Suppliers.* Advances to suppliers are recognized whenever the Company pays in advance for its purchase of goods. These advances are measured at transaction price less impairment in value, if any.

*Value-Added Tax (VAT).* Revenue, expenses and assets are recognized net of the amount of VAT, except for receivables and payables that are stated with the amount of VAT included. The net amount of VAT recoverable from the taxation authority is presented as "Input VAT".

In accordance with the Revenue Regulation No. 16-2005, input VAT on purchases or imports of the Company of capital goods (depreciable assets for income tax purposes) with an aggregate acquisition cost exceeding ₱1.0 million (exclusive of VAT) in each of the calendar month is claimed as credit against output VAT over 60 months or the estimated useful lives of capital goods, whichever is shorter.

Deferred input VAT represents the unamortized amount of input VAT on capital goods. Deferred input VAT on capital goods is classified as current asset if it is expected to be claimed against output VAT no more than 12 months after the reporting date. Otherwise, it is classified as noncurrent asset.

*Prepayments.* Prepayments are expenses paid in advance and recorded as assets before these are utilized. These are measured at face amount less any impairment in value. These are apportioned over the period covered by the payment and recognized in profit or loss when incurred. Prepayments that are expected to be realized over no more than 12 months after the reporting date are classified as current assets. Otherwise, these are classified as noncurrent assets.

*Idle Assets.* Idle assets are those which are no longer used in the Company's operations. These are measured at cost less accumulated depreciation and any impairment loss. The Company's idle assets are already fully provided with allowance for impairment loss.

**Investments in Subsidiaries and Joint Ventures**

The Company's investments in subsidiaries and joint ventures are carried in the separate statement of financial position at cost, less any impairment in value. A subsidiary is an entity in which the Company has control. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity which is subject to joint control.

An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Control is generally accompanied by a shareholding of more than one-half of voting rights. The existence and effect of potential voting rights that are substantive are considered when assessing whether the Company controls an entity. The Company reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of control.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The investment is derecognized when it is sold or disposed of. Gains or losses arising from derecognition of an investment in a subsidiary are measured as the difference between the net proceeds and the carrying amount of the asset and are recognized in the profit or loss when the asset is derecognized.

**Property, Plant and Equipment**

Property, plant and equipment (excluding ROU assets) are stated at cost less accumulated depreciation and amortization and any accumulated impairment in value.

The initial cost of property, plant and equipment comprises its purchase price, after deducting trade discounts and rebates, and any directly attributable costs of bringing the asset to its working condition and location for its intended use. The cost of self-constructed assets includes the cost of materials and direct labor, any other directly attributable costs, the costs of dismantling and removing the items and restoring the site on which they are located and capitalized borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalized as part of the equipment.

Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized in profit or loss in the year the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property, plant and equipment. The cost of replacing a component of an item of property, plant and equipment is recognized if it is probable that the future economic benefits embodied within the component will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognized.

When significant parts of an item of property, plant and equipment have different useful lives, these are accounted for as separate items (major components) of property, plant and equipment.

Depreciation and amortization are computed using the straight-line method over the following estimated useful lives of the property, plant and equipment:

| Asset Type | Number of Years |
|---|---|
| Building | 15 to 25 |
| Machinery and equipment | 15 |
| Leasehold improvements | 5 or lease term, whichever is shorter |
| Transportation equipment | 5 |
| Office and plant furniture, fixtures and equipment | 5 |

The estimated useful lives and depreciation and amortization method are reviewed periodically to ensure that these are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Fully depreciated and amortized assets are retained in the accounts until they are no longer in use and no further charge for depreciation and amortization is made in respect of those assets.

When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation, amortization and any impairment in value are removed from the accounts. Any resulting gain or loss is recognized in profit or loss.

Construction-in-progress (CIP) represents properties under construction and is stated at cost, including cost of construction and other direct costs. CIP is not depreciated until such time that the relevant assets are completed and ready for operational use.

**Impairment of Nonfinancial Assets**

The carrying amounts of nonfinancial assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication exists and when the carrying amounts exceed the estimated recoverable amounts, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of the fair value less cost to sell or value in use. The fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's-length transaction less the cost of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in profit or loss.

An assessment is made at each reporting 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. In such instance, the carrying amount of the asset is increased to its recoverable amount. However, that increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization for property, plant and equipment, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such reversal, the depreciation and amortization charges for property, plant and equipment are adjusted in future years to allocate the asset's revised carrying amount, on a systematic basis over its remaining useful life.

**Customers' Deposits**
Customers' deposits consist of amounts received by the Company from its customers as advance payments for the sale of goods. These are recorded at face amount under "Trade and other payables" account in the separate statements of financial position and recognized as revenue in profit or loss when the goods for which the advances were made are delivered to the customers.

**Equity**

*Capital Stock and APIC.* Capital stock is measured at par value for all shares issued. Incremental costs, net of tax, incurred that are directly attributable to the issuance of new shares are recognized in equity as a reduction from related APIC or retained earnings. Proceeds or fair value of the consideration received in excess of par value are recognized as APIC.

*Retained Earnings (Deficit).* Retained earnings (deficit) represent the cumulative balance of the Company's results of operations. Retained earnings may also include effect of changes in accounting policy as may be required by the standard's transitional provision.

*Other Comprehensive Income.* Other comprehensive income pertains to remeasurement gain or loss on retirement benefit obligation.

*Treasury Shares.* Own equity instruments which are reacquired are recognized at cost and deducted from equity. No gain or loss is recognized in the separate statement of comprehensive income on the purchase, sale, issue or cancellation of the Company's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in APIC. Voting rights related to treasury shares are nullified for the Company and no dividends are allocated to them.

**Income Recognition**

**Revenue**
The Company generates revenue primarily from sale of goods.

*Revenue from Contracts with Customers.* Revenue from contracts with customers is recognized when the performance obligation in the contract has been satisfied, either at a point in time or over time. Revenue is recognized over time if one of the following criteria is met: (a) the customer simultaneously receives and consumes the benefits as the Company performs its obligations; (b) the Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or (c) the Company's performance does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date. Otherwise, revenue is recognized at a point in time.

The Company also assesses its revenue arrangements to determine if it is acting as a principal or as an agent. The Company has assessed that it acts as a principal in all of its revenue sources.

Revenue from sale of goods is recognized, net of returns and discounts, when the significant risks and rewards of ownership of the goods have passed to the customers, which is normally upon delivery to and acceptance of the goods by the customers.

**Other Income**
The Company's other sources of income are recognized as income when earned. Interest income is recognized, net of final tax, in a time proportion basis using the effective interest method.

**Contract Balances**

*Receivables.* A receivable represents the Company's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

*Contract Assets.* A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Company performs by transferring goods or services to a customer before the customer pays a consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional.

As at December 31, 2019 and 2018, the Company does not have outstanding contract assets.

*Contract Liabilities.* A contract liability is the obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays a consideration before the Company transfers goods or services to the customer, a contract liability is recognized when the payment is made by the customer or when the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Company performs under the contract.

The Company considers its customers' deposits as contract liabilities (see Note 11).

*Cost to Obtain a Contract.* The incremental costs of obtaining a contract with a customer are recognized as an asset if the Company expects to recover them. Otherwise, these are treated as expense.

*Contract Fulfillment Asset.* Contract fulfillment costs are divided into: (i) costs that give rise to an asset; and (ii) costs that are expensed as incurred. When determining the appropriate accounting treatment for such costs, the Company first considers any other applicable standards. If those standards preclude capitalization of a particular cost, then an asset is not recognized under PFRS 15. If other standards are not applicable to contract fulfillment costs, the Company applies the following criteria which, if met, result in capitalization: (i) the costs directly relate to a contract or to a specifically identifiable anticipated contract; (ii) the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and (iii) the costs are expected to be recovered. The assessment of these criteria requires the application of judgment, in particular when considering if costs generate or enhance resources to be used to satisfy future performance obligations and whether costs are expected to be recoverable.

As at December 31, 2019 and 2018, the Company does not have contract fulfillment assets.

**<u>Cost and Expense Recognition</u>**

Costs and expenses are recognized in profit or loss when a decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen which can be measured reliably.

*Cost of Goods Sold.* Cost of goods sold is recognized as expense when the related goods are sold.

*Selling and Administrative Expenses.* Selling expenses constitute costs incurred to sell and market the goods and services. Administrative expenses constitute costs of administering the business. These are recognized in profit or loss in the period when these are incurred.

*Interest Expense.* Interest expense is recognized in a time proportion basis using the effective interest method.

*Other Charges.* Expenses from other sources are expensed as incurred.

**Leases**

a. Accounting policies prior to January 1, 2019

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

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

i. there is a change in contractual terms, other than a renewal or extension of the arrangement;

ii. a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;

iii. there is a change in the determination of whether fulfillment is dependent on a specified asset; or

iv. there is a substantial change to the asset.

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

Leases where the lessor transfers substantially all the risks and rewards of ownership of the asset are classified as finance leases, otherwise, operating leases.

For operating leases, lease payments are recognized as expense in profit or loss on a straight-line basis over the lease term.

b. Accounting policies beginning January 1, 2019

The Company assesses whether the contract is, or contains, a lease. To assess whether a contract conveys the right to control the use of an identified assets for a period of time, the Company assesses whether, throughout the period of use, it has both of the following:

i. the right to obtain substantially all of the economic benefits from the use of the identified asset; and

ii. the right to direct the use of the identified asset.

If the Company has the right to control the use of an identified asset for only a portion of the term of the contract, the contract contains a lease for that portion of the term. The Company also assesses whether a contract contains a lease for each potential separate lease component.

At the commencement date, the Company recognizes ROU assets and lease liabilities for all leases, except for short-term leases and leases for which the underlying asset is of low value in which case the lease payments associated with those leases are recognized as an expense on a straight-line basis.

*ROU Assets.* At the commencement date, the Company measures ROU assets at the assets' carrying value as if PFRS 16 had been applied since the commencement date of the lease. The cost comprises:

i. any lease payments made at or before the commencement date less any lease incentives received;

ii. any initial direct costs; and

iii. an estimation of costs to be incurred by the Company in dismantling and removing the underlying asset, when applicable.

After the commencement date, ROU assets are carried at cost less any accumulated amortization and accumulated impairment losses, and adjusted for any remeasurement of the related lease liabilities. The ROU assets are amortized over the shorter of the lease terms or the useful lives of the underlying assets which is five years.

*Lease Liabilities.* At commencement date, the Company measures lease liabilities at the present value of future lease payments using the interest rate implicit in the lease, if that rate can be readily determined. Otherwise, the Company uses its incremental borrowing rate.

Lease payments included in the measurement of a lease liability comprise the following:

i. fixed payments, including in-substance fixed payments;

ii. variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

iii. amounts expected to be payable by the lessee under residual value guarantees; and

iv. the exercise price under a purchase option that the Company is reasonably certain to exercise; lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option; and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

Lease liabilities are subsequently measured at amortized cost. Interest on the lease liabilities and any variable lease payments not included in the measurement of lease liabilities are recognized in profit or loss unless these are capitalized as costs of another asset. Variable lease payments not included in the measurement of the lease liabilities are recognized in profit or loss when the event or condition that triggers those payments occurs.

If there is a change in the lease term or if there is a change in the assessment of an option to purchase the underlying asset, lease liabilities are remeasured using a revised discount rate considering the revised lease payments on the basis of the revised lease term or reflecting the change in amounts payable under the purchase option. Lease liabilities are also remeasured using the revised lease payments if there is a change in the amounts expected to be payable under a residual value guarantee or a change in future lease payments resulting from a change in an index or a rate used to determine those payments.

For income tax reporting purposes, payments and receipts under lease agreements are treated as deductible expense and taxable income in accordance with the terms of the lease agreements.

**Retirement Benefits**

Retirement benefit costs are actuarially determined using the projected unit credit method. This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries.

The Company recognizes current service costs and interest expense on the retirement benefit obligation in profit or loss.

The Company determines the interest expense on retirement benefit obligation by applying the discount rate to the retirement benefit obligation at the beginning of the year, taking into account any changes in the liability during the year as a result of benefit payments.

Remeasurements of the net retirement benefit obligation, which consist of remeasurement gains and losses and the return on plan asset (excluding amount charged in net interest) are recognized immediately in other comprehensive income and are not reclassified to profit or loss in subsequent year.

Plan assets are assets that are held in trust and managed by a trustee bank. Plan assets are not available to the creditors of the Company, nor can they be paid directly to the Company. The fair value of the plan assets is based on the 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 net retirement benefit obligation recognized by the Company is the present value of the defined benefit obligation reduced by the fair value of plan asset. The present value of defined benefit obligation is determined by discounting the estimated future cash outflows using risk-free interest rates of government bonds that have terms to maturity approximating the terms of the related retirement benefit obligation.

Actuarial valuation is made with sufficient regularity by a qualified actuary so that the amounts recognized in the separate financial statements do not differ materially from the amounts that would be determined at the reporting date.

## Income Taxes

*Current tax.* Current tax liabilities for the current and prior years are measured at the amounts expected to be paid to the taxation authority. The tax rates and laws used to compute the amount are those that are enacted or substantively enacted as at financial reporting date.

*Deferred tax.* Deferred tax is provided on all temporary differences at the reporting 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. Deferred tax assets are recognized for all deductible temporary differences, unused net operating loss carryover (NOLCO) and excess minimum corporate income tax (MCIT), to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of unused NOLCO and excess MCIT can be utilized.

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

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

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in relation to the underlying transaction either in other comprehensive income or directly in equity.

*Offsetting.* Current tax assets and current tax liabilities are offset, or deferred tax assets and deferred tax liabilities are offset if, and only if, an enforceable right exists to offset the amounts and it can be demonstrated without undue cost or effort that the Company plans either to settle on a net basis or to realize the asset and settle the liability simultaneously.

## Foreign Currency-denominated Transactions and Translation

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate at the reporting date. All differences are taken to the separate statement of comprehensive income. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. 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.

For income tax reporting purposes, foreign exchange gains or losses are treated as taxable income or deductible expenses in the year such are realized.

**Related Party Relationships and Transactions**

Related parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. Such relationships also exist between and/or among entities which are under common control with the reporting enterprise, or between and/or among the reporting enterprises and their key management personnel, directors, or its stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely to the legal form.

Related party transactions are considered material and/or significant if (i) these transactions amount to 10% or higher of the Company's total assets or, (ii) there are several transactions or a series of transactions over a 12-month period with the same related party amounting to 10% or higher of the Company's total assets. Details of transactions entered into by the Company with related parties are reviewed by the BOD in accordance with the Company's related party transactions policies.

Related party transactions consist of transfers of resources, services or obligations between the Company and its related parties, regardless of whether a price is charged.

**Provisions**

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

**Contingencies**

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

**Events after the Reporting Period**

The Company identifies subsequent events as events that occurred after the reporting period but before the date when the separate financial statements were authorized for issue. Any subsequent event that provides additional information about the Company's financial position at the reporting period is reflected in the separate financial statements. Non-adjusting subsequent events are disclosed in the notes to separate financial statement, when material.

**Income (Loss) per Share**

The Company presents basic and diluted income (loss) per share data for its common shares.

Basic income (loss) per share is calculated by dividing the net income (loss) attributable to common shareholders of the Company by the weighted average number of common shares issued and outstanding during the year. There are no potential dilutive shares.

## 3. Significant Judgments, Accounting Estimates and Assumptions

The preparation of the Company's separate financial statements requires management to exercise judgments, make estimates and use assumptions that affect the reported amounts of revenue, expenses, assets and liabilities and disclosure of contingent liabilities, at the end of the reporting period. The judgments and estimates used in the separate financial statements are based on management's evaluation of relevant facts and circumstances as at the reporting date.

While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the estimated amounts. Actual results could differ from such estimates. In particular, the COVID-19 pandemic and the resulting adverse effects to the global economic conditions, as well as to the Company's operations, may impact future estimates including, but not limited to, the allowance for ECL, valuation of inventories, fair value measurements, impairment of nonfinancial assets, deferred tax assets valuation, actuarial gains and losses on retirement benefit obligation and discount rate assumptions.

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

The Company believes that the following represent a summary of these significant judgments, estimates and assumptions and the related impact and associated risks in the separate financial statements.

*Determining the Functional Currency.* Management has determined that the functional currency of the Company is the U.S. Dollar, which is the currency of the primary economic environment in which the Company operates and it is also the currency that mainly influences the operations of the Company.

*Classifying Financial Assets and Liabilities.* The Company has determined that it shall classify its financial assets at amortized cost on the basis of the following conditions met:

- The asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Moreover, the Company has determined that it shall classify its financial liabilities at amortized cost using the effective interest method.

*Classifying Lease Commitments prior to January 1, 2019 - Company as a Lessee.* The Company entered into various operating lease agreements for its forklifts, container vans, warehouse, plant and office. The Company assessed that it does not have the risks and rewards of ownership of the leased properties. Accordingly, the lease arrangement is considered as an operating lease.

Information on the Company's rental expense is disclosed in Note 22.

*Classifying* Lease *Commitments beginning January 1, 2019 - Company as a Lessee.* The Company has entered into leases for its forklifts, container vans, warehouse, plant and office. For short-term leases, lease payments are recognized as expense on a straight-line basis over the lease term (see Note 22). For long term leases, the Company recognizes ROU assets and lease liabilities measured at the present value of lease payments to be made over the lease term using the Company's incremental borrowing rate.

Information on the Company's ROU assets presented under "Property, plant and equipment" and lease liabilities are disclosed in Notes 9 and 22, respectively.

*Determining Control or Joint Control over an Investee Company.* Control is presumed to exist when an investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. On the other hand, joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. The Company accounts for its interest in a joint arrangement with FDCP, Inc. (FDCP) and Wild Catch Fisheries, Inc. (WCFI) as a joint venture under PFRS 11, *Joint Arrangements*. Management has determined that by virtue of its majority ownership of voting rights in PTVDZ as at December 31, 2019 and 2018, the Company has the ability to exercise control over these investees.

*Estimating the Fair Value of Financial Instruments.* When the fair values of financial assets and financial liabilities recorded in the separate statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments. See Note 25 for further disclosures.

*Assessing the ECL on Trade and Other Receivables.* The Company applies the simplified approach in measuring ECL, which uses a lifetime expected loss allowance. To measure the ECL, these receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are initially based on the Company's historical default rates. These historical default rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Company has identified the Gross Domestic Product (GDP) of the locations in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

The assessment of the correlation between historical default rates, forecast economic conditions and ECL is a significant estimate. The amount of ECL is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of the customer's actual default in the future.

Information about the ECL on the Company's trade and other receivables is disclosed in Note 26.

The carrying amount of trade and other receivables and provision for and allowance for credit losses on trade and other receivables are disclosed in Note 5.

*Assessing the ECL on Other Financial Assets at Amortized Cost.* The Company determines the allowance for ECL using general approach. The Company calculates ECL for its other financial assets at amortized cost at initial recognition by considering the occurrences and probabilities of possible defaults only for the next 12 months, rather than the life of the asset. It continues to apply this method until a significant increase in credit risk has occurred, at which point the loss allowance is measured based on lifetime ECL.

When determining if there has been a significant increase in credit risk, the Company considers reasonable and supportable information that is available without undue cost or effort and that is relevant for the particular financial instrument being assessed such as, but not limited to, the following factors:

- actual or expected external and internal credit rating downgrade;
- existing or forecasted adverse changes in business, financial or economic conditions; and,
- actual or expected significant adverse changes in the operating results of the counterparty.

No provision for credit losses on other financial assets at amortized cost was recognized in 2019, 2018, and 2017.

The carrying amounts of the Company's cash, due from related parties and other noncurrent assets (excluding idle assets and investment in joint ventures) are disclosed in Notes 4, 10 and 13.

*Estimating the NRV of Inventories.* The NRV of inventories represents the estimated selling price for inventories less all estimated costs of completion and cost necessary to make the sale for finished goods, and current replacement costs for raw and packaging materials and parts and supplies. The Company determines the estimated selling price for inventories based on the recent sale transaction of similar goods with adjustments to reflect any changes in economic conditions since the date the transactions occurred. The Company records provisions for the excess of cost over NRV of inventories. While the Company believes that the estimates are reasonable and appropriate, significant differences in the actual experience or significant changes in estimates may materially affect the profit or loss and equity.

The carrying amounts of inventories carried at lower of cost and NRV are disclosed in Note 6.

*Estimating the Useful Lives of Property, Plant and Equipment.* The Company estimates the useful lives of property, plant and equipment based on the period over which the assets are expected to be available for use. The estimates are based on a collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful lives of property, plant and equipment are reviewed at each reporting date and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. Future results of operations could be materially affected by changes in estimates brought about by changes in the factors mentioned above. The amount and timing of recording of depreciation and amortization expense for any period would be affected by changes in these factors and circumstances.

There were no changes in the estimated useful lives of the Company's property, plant and equipment in 2019, 2018 and 2017.

The carrying amount of property, plant and equipment is disclosed in Note 9.

*Estimating ROU Assets and Lease Liabilities.* The Company's ROU assets and lease liabilities are initially measured at the present value of lease payments. In determining the appropriate discount rate, the Company considered readily available interest rate implicit in the lease agreements, interest rate on its borrowings and the term of each lease commitment. The Company determined that the implicit rate in the lease agreement is not readily available and that the interest rate on its borrowings presents the appropriate financing cost in leasing the underlying assets. The incremental borrowing rate used in the lease is the rate that would cause the present value of the lease payments and unguaranteed residual to equal the sum of the fair value of the underlying assets and initial direct costs incurred.

The carrying amounts of ROU assets presented under "Property, plant and equipment" and lease liabilities are disclosed in Notes 9 and 22, respectively.

*Assessing Extension Options of Lease Commitments.* The Company's property leases on office and plant contain extension options exercisable by the Company prior to the end of the contract period to maximize operational flexibility in terms of managing contracts. Extension options are not reflected in measuring lease liabilities in cases when these options are not reasonably certain to be exercised or when the terms and conditions of the renewed contract are uncertain and subject to change considering the economic circumstances under which the Company operates. A reassessment will be made when there is a significant event or significant change in circumstances within its control. In 2019, there were no reassessments made.

For abovementioned property leases, the undiscounted potential future rental payments relating to periods following the exercise date of extension options that are not included in the lease liabilities follow:

| | |
|---|---|
| Not later than one year | $– |
| More than one year but less than five years | 433,594 |
| More than five years | 802,619 |
| Undiscounted potential future rental payments | 1,236,213 |
| Effect of discounting using incremental borrowing rate | (574,014) |
| Lease liabilities not recognized | $662,199 |

*Assessing the Impairment of Nonfinancial Assets.* The Company assesses impairment on its nonfinancial assets whenever events or changes in circumstances indicate that the carrying amount of the assets or group of assets may not be recoverable. The relevant factors that the Company considers in deciding whether to perform an asset impairment review include the following:

- significant underperformance of a business in relation to expectations;
- significant negative industry or economic trends; and
- significant changes or planned changes in the use of the assets.

Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs. Recoverable amount represents the greater of the fair value less cost to sell and the value in use.

No provision for impairment loss was recognized for other current assets and property, plant and equipment in 2019, 2018 and 2017. The carrying amounts of other current assets and property, plant and equipment are disclosed in Notes 7 and 9.

Provision for impairment loss was recognized on investment in PT IAFI in 2017 and carrying amounts of investments in subsidiaries is disclosed in Note 8.

The recoverable amount of property, plant and equipment represents the assets' value in use. Value in use is determined as the present value of estimated future cash flows expected to be generated from the continued use of the assets. The estimated cash flows are projected using growth rates based on historical experience and business plans and are discounted using pretax discount rates that reflect the current assessment of the time value of money and the risks specific to the assets.

*Recognizing Deferred Tax Assets.* The carrying amounts of deferred tax assets at each reporting date are reviewed and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The Company's assessment on the recognition of deferred tax assets on deductible temporary differences and carryforward benefits from unused NOLCO and excess MCIT is based on the forecasted taxable income of the subsequent reporting periods. This forecast is based on the Company's past results and future expectations on revenue and expenses.

The Company did not recognize deferred tax assets amounting to $135,944 and $145,000 as at December 31, 2019 and 2018, respectively, since the Company believes that it is not probable that sufficient taxable profit will be available to allow all or part of the MCIT and NOLCO to be utilized within the period allowed by the tax regulations.

The Company's deferred tax assets are disclosed in Note 24.

*Estimating Retirement Benefit Costs.* The determination of the obligation and costs of retirement benefits is dependent on the assumptions used by the actuary in calculating such amounts. These assumptions are described in Note 14 to the separate financial statements and include, among others, discount rates and expected salary increase rates.

## 4. Cash

This account consists of:

| | **2019** | 2018 |
|---|---|---|
| Cash on hand | **$1,988** | $1,382 |
| Cash in banks | **1,261,406** | 2,040,861 |
| | **$1,263,394** | $2,042,243 |

Cash in banks earn interest at the prevailing bank deposit rates.

Interest income earned on bank deposits amounted to $5,501, $4,775 and $16,964 in 2019, 2018 and 2017, respectively.

## 5. Trade and Other Receivables

This account consists of:

| | Note | 2019 | 2018 |
|---|---|---|---|
| Trade receivable from: | | | |
| Third parties | | **$9,141,370** | $9,482,215 |
| Related party | 13 | **234,185** | 234,185 |
| Others | | **1,065,011** | 405,477 |
| | | **10,440,566** | 10,121,877 |
| Allowance for impairment losses | | **(653,147)** | (653,147) |
| | | **$9,787,419** | $9,468,730 |

Trade receivables are noninterest-bearing, unsecured and are generally collected within 90 days.

Other receivables include claims receivable for tax refund and advances to employees subject to salary deduction.

Movements in the allowance for impairment losses on trade and other receivables are as follows:

| | Note | 2019 | 2018 |
|---|---|---|---|
| Balance at beginning of year | | **$653,147** | $675,147 |
| Reversal | | **–** | (45,000) |
| Provision | 18 | **–** | 23,000 |
| Balance at end of year | | **$653,147** | $653,147 |

Trade receivables amounting to $6.48 million and $5.22 million are used to secure short-term loans from local banks as at December 31, 2019 and 2018, respectively (see Note 12).

## 6. Inventories

This account consists of:

| | 2019 | 2018 |
|---|---|---|
| At cost: | | |
| Raw and packaging materials | **$3,181,893** | $6,118,977 |
| Finished goods | **5,249,945** | 4,938,401 |
| Parts and supplies | **217,997** | 251,775 |
| At NRV - | | |
| Finished goods | **2,869,440** | 992,591 |
| | **$11,519,275** | $12,301,744 |

The costs of inventories stated at NRV are as follows:

| | 2019 | 2018 |
|---|---|---|
| Finished goods | **$3,770,969** | $1,169,591 |
| Raw and packaging materials | **8,272** | 18,043 |
| | **$3,779,241** | $1,187,634 |

Movements in the allowance for impairment losses on inventories are as follows:

| | Note | 2019 | 2018 |
|---|---|---|---|
| Balance at beginning of year | | **$195,043** | $722,823 |
| Provision | 18 | **874,601** | 159,024 |
| Reversal | | **(159,843)** | (686,804) |
| Balance at end of year | | **$909,801** | $195,043 |

Reversal of allowance for impairment of inventories mainly pertains to inventories condemned and subsequently sold, which were provided with allowance.

Inventories amounting to $9.58 million and $11.76 million are used to secure short-term loans from local banks as at December 31, 2019 and 2018, respectively (see Note 12).

Inventories charged to cost of goods sold amounted to $47.00 million, $52.06 million, and $30.96 million in 2019, 2018 and 2017, respectively (see Note 17).

## 7. Other Current Assets

This account consists of:

| | 2019 | 2018 |
|---|---|---|
| Advances to suppliers | **$8,660,526** | $6,839,971 |
| Input VAT | **438,029** | 385,566 |
| Prepayments: | | |
| Subscriptions | **24,728** | 8,597 |
| Insurance | **24,617** | 46,152 |
| Rental | **839** | 42,731 |
| Others | **238,785** | 244,785 |
| | **$9,387,524** | $7,567,802 |

## 8. Investments in Subsidiaries

Details of investments are as follows:

| Name of Subsidiaries | Note | 2019 | 2018 |
|---|---|---|---|
| BGB | | **$6,177,761** | $6,177,761 |
| PT IAFI | | **4,999,000** | 4,999,000 |
| Akaroa | | **2,326,800** | 2,326,800 |
| AMHI | | **294,037** | 294,037 |
| Spence | | **–** | 9,240,946 |
| | | **13,797,598** | 23,038,544 |
| Allowance for impairment loss | 19 | **(4,999,000)** | (4,999,000) |
| | | **$8,798,598** | $18,039,544 |

In 2019, the Company sold its investment in Spence for a total consideration of $10.22 million and recognized a gain on sale amounting to $983,994, net of $488,819 related expenses (see Note 19).

**Financial Information**

The summarized financial information of subsidiary with significant non-controlling interest as at and for the years ended December 31, 2019, 2018 and 2017 follows:

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Total assets | **$7,266,881** | $2,779,457 | $2,679,662 |
| Total liabilities | **5,589,477** | 977,042 | 1,235,864 |
| Equity | **1,677,404** | 1,802,415 | 1,443,798 |
| Net income (loss) | **(218,546)** | 447,956 | 703,204 |

## 9. Property, Plant and Equipment

The composition of and movements in this account are as follows:

| | 2019 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Building | Machinery and Equipment | Leasehold Improvements | Transportation Equipment | Office Furniture, Fixtures and Equipment | Plant Furniture, Fixtures and equipment | CIP | ROU Assets | Total |
| Cost | | | | | | | | | |
| Balance at beginning of year | $1,373,344 | $3,148,505 | $238,575 | $302,116 | $422,990 | $53,533 | $555,269 | $– | $6,094,332 |
| Additions | 4,442 | 853,415 | – | 31,687 | 16,281 | 6,565 | 1,140,165 | 633,208 | 2,685,763 |
| Disposals | – | – | – | (25,103) | – | – | – | – | (25,103) |
| Reclassification | 57,316 | – | – | – | – | – | (57,316) | – | – |
| Balance at end of year | 1,435,102 | 4,001,920 | 238,575 | 308,700 | 439,271 | 60,098 | 1,638,118 | 633,208 | 8,754,992 |
| Accumulated Depreciation and Amortization | | | | | | | | | |
| Balance at beginning of year | 620,863 | 1,605,682 | 32,900 | 181,375 | 256,656 | 48,288 | – | – | 2,745,764 |
| Depreciation and amortization | 81,659 | 276,238 | 19,963 | 26,552 | 25,214 | 2,014 | – | 153,098 | 584,738 |
| Disposals | – | – | – | (16,317) | – | – | – | – | (16,317) |
| Balance at end of year | 702,522 | 1,881,920 | 52,863 | 191,610 | 281,870 | 50,302 | – | 153,098 | 3,314,185 |
| Allowance for Impairment Losses | | | | | | | | | |
| Balance at beginning and end of year | – | 101,406 | – | – | – | – | – | – | 101,406 |
| Carrying Amount | $732,580 | $2,018,594 | $185,712 | $117,090 | $157,401 | $9,796 | $1,638,118 | $480,110 | $5,339,401 |

| | 2018 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Building | Machinery and Equipment | Leasehold Improvements | Transportation Equipment | Office Furniture, Fixtures and Equipment | Plant Furniture, Fixtures and equipment | CIP | Total |
| Cost | | | | | | | | |
| Balance at beginning of year | $1,373,344 | $2,806,459 | $141,213 | $287,810 | $409,470 | $45,931 | $690,377 | $5,754,604 |
| Additions | – | 206,938 | 97,362 | 14,306 | 18,539 | 8,076 | – | 345,221 |
| Disposals | – | – | – | – | (5,019) | (474) | – | (5,493) |
| Reclassification | – | 135,108 | – | – | – | – | (135,108) | – |
| Balance at end of year | 1,373,344 | 3,148,505 | 238,575 | 302,116 | 422,990 | 53,533 | 555,269 | 6,094,332 |
| Accumulated Depreciation and Amortization | | | | | | | | |
| Balance at beginning of year | 466,562 | 1,397,442 | 25,873 | 152,758 | 235,395 | 45,931 | – | 2,323,961 |
| Depreciation and amortization | 154,301 | 208,240 | 7,027 | 28,617 | 26,013 | 2,804 | – | 427,002 |
| Disposals | – | – | – | – | (4,752) | (447) | – | (5,199) |
| Balance at end of year | 620,863 | 1,605,682 | 32,900 | 181,375 | 256,656 | 48,288 | – | 2,745,764 |
| Allowance for Impairment Losses | | | | | | | | |
| Balance at beginning and end of year | – | 101,406 | – | – | – | – | – | 101,406 |
| Carrying Amount | $752,481 | $1,441,417 | $205,675 | $120,741 | $166,334 | $5,245 | $555,269 | $3,247,162 |

The cost of fully depreciated property, plant and equipment still used in Company's operations amounted to $705,795 and $690,594 as at December 31, 2019 and 2018, respectively.

Transportation equipment with carrying amounts of $17,980 and $41,605 as at December 31, 2019 and 2018, respectively, are held as security to long-term loans (see Note 12).

Depreciation and amortization charged to operations are as follows:

| | Note | **2019** | 2018 | 2017 |
|---|---|---|---|---|
| Cost of goods sold | 17 | **$485,259** | $303,160 | $306,910 |
| Selling and administrative expenses | 18 | **99,479** | 123,842 | 71,781 |
| | | **$584,738** | $427,002 | $378,691 |

The Company recognized a gain on disposal of transportation equipment amounting to $3,110 and $627 in 2019 and 2017, respectively, and a loss on disposal of office furniture, fixtures and equipment amounting to $294 in 2018 (see Note 19).

## 10. Other Noncurrent Assets

This account consists of:

| | Note | **2019** | 2018 |
|---|---|---|---|
| Receivable from WCFI | 13 | **$2,183,281** | $2,183,281 |
| Refundable lease deposits | 22 | **1,651,080** | 1,598,364 |
| Idle assets | | **314,320** | 314,320 |
| Investments in joint ventures | | **280,243** | 280,243 |
| | | **4,428,924** | 4,376,208 |
| Allowance for impairment losses | | **(2,777,426)** | (2,777,426) |
| | | **$1,651,498** | $1,598,782 |

**Receivable from WCFI**
Receivable from WCFI pertains to the proceeds from the sale of a fishing vessel and advances for fish deposit. WCFI ceased operations since 2014. This was fully provided with allowance for impairment loss.

**Refundable Lease Deposits**
Refundable lease deposits pertain to lease deposits for plant and office (see Note 22).

**Idle Assets**
Idle assets pertain to fishing vessels that are no longer used in the Company's operations.

As at December 31, 2019 and 2018, idle assets were fully provided with an allowance. Total allowance for impairment losses on fishing vessels, including allowance for impairment losses previously recognized before reclassification to idle assets, amounted to $13.93 million.

**Investments in Joint Ventures**

*FDCP*. FDCP is engaged in manufacturing and wholesale of tin cans. The Company has 39% ownership interest in FDCP. FDCP ceased manufacturing operations in September 2015.

*WCFI*. WCFI is an entity primarily engaged in commercial fishing within and outside Philippine waters and in the high seas. The Company has 40% ownership interest in WCFI. WCFI ceased operations in 2014.

The Company's investments in joint ventures are fully provided with allowance for impairment losses.

## 11. Trade and Other Payables

This account consists of:

| | Note | 2019 | 2018 |
|---|---|---|---|
| Trade payables to: | | | |
| Third parties | | **$3,083,611** | $4,581,865 |
| Related parties | 13 | **433,855** | 599,241 |
| Accrued expenses | | **1,091,185** | 952,234 |
| Customers' deposits | | **118,057** | 266,689 |
| Statutory payable | | **53,365** | 85,140 |
| | | **$4,780,073** | $6,485,169 |

Trade payables are noninterest-bearing and are generally settled within 30 days.

Details of accrued expenses are as follows:

| | Note | 2019 | 2018 |
|---|---|---|---|
| Outside services | | **$344,211** | $246,527 |
| Professional fees | | **177,842** | 113,076 |
| Consultancy fees | 13 | **163,300** | 89,938 |
| Warehousing | | **148,774** | 154,920 |
| Interest | | **109,758** | 155,469 |
| Salaries and wages | | **66,011** | 50,579 |
| Freight | | **46,598** | 92,488 |
| Others | | **34,691** | 49,237 |
| | | **$1,091,185** | $952,234 |

Statutory payable includes amounts payable to government agencies such as SSS, PhilHealth and Pag-IBIG and are normally settled in the following month.

## 12. Loans Payable

**Short-term Loans**

| | Currency | Nominal interest rate | 2019 | 2018 |
|---|---|---|---|---|
| Local banks | USD | 5.0-5.6% | **$21,730,905** | $26,539,033 |
| Investment banks | PHP | 5.0-8.0% | **–** | 2,149,106 |
| | USD | 4.5-6.5% | **–** | 2,200,000 |
| | | | **21,730,905** | 30,888,139 |
| Add current portion of long-term loans | | | **9,535** | 13,507 |
| | | | **$21,740,440** | $30,901,646 |

The loans from local banks, with terms ranging from three to six months, pertain to working capital loans and availments of revolving facilities in the form of export packing credit, export bills purchase, import letters of credit and trust receipts.

*Loan Security.* Short-term loans from local banks are secured by the Company's trade receivables and inventories as follows:

| | Note | 2019 | 2018 |
|---|---|---|---|
| Trade receivables | 5 | **$6,476,411** | $5,218,576 |
| Inventories | 6 | **9,579,281** | 11,763,776 |
| | | **$16,055,692** | $16,982,352 |

Loans from investment bank are unsecured promissory notes used to finance the Company's working capital requirements, with a renewable 90-day term.

**Long-term Loans**

| | 2019 | 2018 |
|---|---|---|
| Local banks | **$1,516,838** | $37,604 |
| Less current portion | **9,535** | 13,507 |
| | **$1,507,303** | $24,097 |

Loans from local banks, which are denominated in Peso, bear annual interest rates ranging from 6.50% to 9.59%.

*Loan Security.* The long-term loans are secured by transportation equipment with carrying amounts of $17,980 and $41,605 as at December 31, 2019 and 2018, respectively (see Note 9).

**Interest Expense**

Interest expense is recognized from the following:

| | Note | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| Short-term loans | | **$1,794,279** | $1,391,715 | $742,485 |
| Due to Parent Company | 13 | **63,927** | 73,879 | 8,597 |
| Notes payable | 13 | **62,110** | 9,315 | 13,544 |
| Lease liabilities | 22 | **56,475** | – | – |
| Long-term loans | | **2,435** | 3,912 | 4,676 |
| | | **$1,979,226** | $1,478,821 | $769,302 |

Interest expense on lease liabilities amounting to $40,919 in 2019 is presented as part of "Others" under "Cost of goods sold" in the separate statements of comprehensive income (see Note 17).

## 13. Related Party Transactions

The Company, in the normal course of business, has transactions with its related parties as summarized below.

| | | Amount of Transaction | | Outstanding Balance | |
|---|---|---|---|---|---|
| Related Party | Note | **2019** | 2018 | **2019** | 2018 |
| **Trade and Other Receivables** | | | | | |
| Joint ventures | 5 | **$–** | ($31,080) | **$234,185** | $234,185 |
| **Due from Related Parties** | | | | | |
| Subsidiaries | | **($739,449)** | ($1,308,426) | **$12,452,423** | $13,191,872 |
| Allowance for impairment loss | 19 | **18,128** | – | **(6,649,314)** | (6,667,442) |
| | | | | **$5,803,109** | $6,524,430 |
| **Other Noncurrent Assets** | 10 | | | | |
| Joint venture | | **$–** | $418 | **$2,183,281** | $2,183,281 |
| Subsidiary | | **52,169** | (76,029) | **1,635,813** | 1,583,644 |
| Allowance for impairment loss | | **–** | – | **(2,182,863)** | (2,182,863) |
| | | | | **$1,636,231** | $1,584,062 |
| **Trade and Other Payables** | 11 | | | | |
| Joint venture | | **($10,466)** | $181,477 | **$433,855** | $444,321 |
| Parent Company | | **73,362** | (20,216) | **163,300** | 89,938 |
| Subsidiaries | | **(154,920)** | 140,043 | **–** | 154,920 |
| | | | | **$597,155** | $689,179 |
| **Notes Payable** | | | | | |
| Subsidiary | | **$–** | ($3,450,000) | **$–** | $– |
| **Due to Parent Company** | | **$2,000,000** | ($2,002,804) | **$2,000,000** | $– |

*Trade and Other Receivables.* The receivable from FDCP pertains to return of purchased tin cans which had damages. FDCP ceased manufacturing operations in September 2015.

*Due from Related Parties.* The Company has advances to its subsidiaries for working capital requirements. These receivables (excluding BGB, AMHI, and Akaroa) are noninterest-bearing and are payable on demand. The Company recognized a gain on reversal of allowance amounting to $18,128 in 2019 and a provision for impairment loss on advances to PT IAFI amounting to $6.67 million in 2017 because of significant losses incurred by PT IAFI (see Note 19).

Interest income recognized on these advances follows (see Note 4):

| Due from: | Interest Rate | **2019** | 2018 | 2017 |
|---|---|---|---|---|
| BGB | 3.00% | **$97,985** | $107,121 | $115,060 |
| Akaroa | 7.00% | **21,128** | 16,412 | 15,851 |
| AMHI | 7.50% | **13,480** | 13,390 | 47,986 |
| PT IAFI | | **–** | 8,439 | – |
| | | **$132,593** | $145,362 | $178,897 |

The Company has a management agreement with Spence. Management fees amounted to $343,264, $418,020 and $400,000 in 2019, 2018 and 2017, respectively (see Note 19). The outstanding balance is noninterest-bearing and is payable on demand.

*Other Noncurrent Assets.* Refundable lease deposit to AMHI resulted from a long-term lease contract (see Note 22).

*Trade and Other Payables.* The Company purchased some of its tin can requirements from FDCP. Trade payable to AMHI pertains to unpaid rentals. Payable to Parent Company pertains to various operating expenses. Payable to Spence pertains to interest payable. The outstanding balances are unsecured, noninterest-bearing and have no repayment terms. These are settled in cash, except for rental payable amounting to $134,510 which was offset against due from AMHI in 2019.

*Notes Payable.* In 2019, the Company issued a long-term promissory note to Spence amounting to $3.0 million. Proceeds from disposal of Spence was used to settle the liability in full.

Interest expense amounted to $62,110, $9,315 and $13,544 in 2019, 2018 and 2017, respectively (see Note 12).

*Due to Parent Company.* The Company's payable to Strongoak, its Parent Company, in 2018 pertains to cash advances for its working capital requirement, which bears 6.5% annual interest and payable within four months from drawdown date.

In 2019, the Company borrowed additional funds from its Parent Company amounting to $2.0 million which bears 6.31% annual interest and payable on a lump sum basis in cash in 2022.

Interest expense amounted to $63,927, $73,879 and $8,597 in 2019, 2018 and 2017, respectively (see Note 12).

The ultimate parent company is Seawood Resources, Inc., a domestic company engaged in investing activities.

The remuneration of the key management personnel of the Company is composed of short-term and post-employment benefits. Short-term employee benefits amounted to $496,178, $492,042, and $398,487 in 2019, 2018 and 2017, respectively. Post-employment benefits amounted to $36,744, $35,356 and $35,934 in 2019, 2018 and 2017, respectively.

## 14. Retirement Benefit Obligation

The Company values its defined benefit obligation using the projected unit credit method. The benefit shall be payable to employees who retire from service who are at least 60 years old and with at least five years of continuous service.

The most recent actuarial valuation was carried out as at December 31, 2018 performed by an independent actuary.

Retirement benefit costs recognized in the separate statements of comprehensive income in respect of this defined benefit plan are as follows (see Note 18):

| | **2019** | 2018 | 2017 |
|---|---|---|---|
| Service cost: | | | |
| Current service cost | **$80,279** | $39,114 | $38,802 |
| Net interest expense | **9,546** | 9,629 | 7,621 |
| | **$89,825** | $48,743 | $46,423 |

The amounts included in the separate statements of financial position arising from the Company's obligations in respect of its retirement benefit obligation are as follows:

| | 2019 | 2018 |
|---|---|---|
| Present value of defined benefit obligation | **$311,912** | $228,703 |
| Fair value of plan assets | **(40,182)** | (39,674) |
| | **$271,730** | $189,029 |

Movements in the present value of defined benefit obligation are as follows:

| | 2019 | 2018 |
|---|---|---|
| Balance at beginning of year | **$228,703** | $233,863 |
| Current service cost | **80,279** | 39,114 |
| Interest cost | **11,549** | 11,735 |
| Unrealized foreign exchange gain | **(8,619)** | (10,413) |
| Remeasurement gains: | | |
| Arising from experience adjustments | **-** | (34,699) |
| Arising from changes in financial assumptions | **-** | (10,897) |
| Balance at end of year | **$311,912** | $228,703 |

Movements in the fair value of plan assets are as follows:

| | 2019 | 2018 |
|---|---|---|
| Balance at beginning of year | **$39,674** | $42,190 |
| Interest income | **2,003** | 2,106 |
| Unrealized foreign exchange loss | **(1,495)** | (2,089) |
| Loss on plan assets | **-** | (2,533) |
| Balance at end of year | **$40,182** | $39,674 |

The analysis of the fair value of plan assets as at December 31, 2019 and 2018 is as follows:

| | 2019 | 2018 |
|---|---|---|
| Cash | **$152** | $150 |
| Debt instruments | **40,030** | 39,524 |
| Other assets | **57** | 56 |
| Fees payables | **(4)** | (4) |
| Withholding taxes payable | **(53)** | (52) |
| | **$40,182** | $39,674 |

The principal assumptions used for the purposes of the actuarial valuations were as follows:

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Discount rate | **5.05%** | 7.43% | 5.25% |
| Expected rate of salary increases | **6.00%** | 6.00% | 4.00% |

The sensitivity analysis on the defined benefits obligations as at December 31, 2019 is as follows:

| | Basis Points | 2019 | 2018 |
|---|---|---|---|
| Discount rate | +1.00% | **($34,832)** | ($25,540) |
| | -1.00% | **39,603** | 29,038 |
| Salary increase rate | +1.00% | **39,855** | 29,223 |
| | -1.00% | **(34,595)** | (25,366) |
| Employee turnover | +1.00% | **4,472** | 3,279 |
| | -1.00% | **(4,472)** | (3,279) |

The cumulative remeasurement gain on retirement benefit obligation recognized in other comprehensive income follows:

| | Accumulated Remeasurement Gain | Deferred Tax | Net |
|---|---|---|---|
| Balance as at January 1 and December 31, 2019 | **$148,153** | **($44,446)** | **$103,707** |
| Balance as at January 1, 2018 | $105,090 | ($31,527) | $73,563 |
| Remeasurement gain | 43,063 | (12,919) | 30,144 |
| Balance as at December 31, 2018 | $148,153 | ($44,446) | $103,707 |
| Balance as at January 1 and December 31, 2017 | $105,090 | ($31,527) | $73,563 |

The average duration of the benefit obligation is 19 years as at December 31, 2019 and 2018.

## 15. Equity

Details of the Company's capital stock are as follows:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | **Shares** | **Amount** | Shares | Amount |
| **Authorized** | | | | |
| Ordinary shares at ₱0.50 par value per share | | | | |
| Balance at beginning of year | **3,000,000,000** | **₱1,500,000,000** | 3,000,000, 000 | ₱3,000,000,000 |
| Effect of equity restructuring | **–** | **–** | – | (1,500,000,000) |
| Balance at end of year | **3,000,000,000** | **₱1,500,000,000** | 3,000,000, 000 | ₱1,500,000,000 |
| **Issued and Outstanding** | | | | |
| Balance at beginning of year | **2,500,000,000** | **$26,823,389** | 2,500,000,000 | $53,646,778 |
| Effect of equity restructuring | **–** | **–** | – | (26,823,389) |
| | **2,500,000,000** | **26,823,389** | 2,500,000,000 | 26,823,389 |
| Treasury shares at cost | **(287,537)** | **(5,774)** | (287,537) | (5,774) |
| Balance at end of year | **2,499,712,463** | **$26,817,615** | 2,499,712,463 | $26,817,615 |

The Company's track record of registration of securities is as follows:

| | Issue/Offer Price | Registration/Issue Date | Number of Shares Issued |
|---|---|---|---|
| Initial public offering | ₱1.35 | November 8, 2006 | 535,099,610 |
| Stock dividends | – | December 17, 2007 | 64,177,449 |
| Stock rights offer (SRO) | 1.00 | July 25, 2011 | 272,267,965 |
| Stock dividends | – | January 25, 2012 | 137,500,000 |
| Private placement | 1.60 | December 14, 2012 | 60,668,750 |
| Private placement | 1.31 | May 5, 2014 | 430,286,226 |
| SRO | 1.00 | October 28, 2015 | 1,000,000,000 |
| | | | 2,500,000,000 |

On March 23, 2018, the SEC approved the Company's application for the equity restructuring. Accordingly, the resulting APIC of \$26.82 million from the restructuring and APIC of \$6.66 million as at December 31, 2016, were used to fully wipe out the Company's deficit amounting to \$32.00 million as at December 31, 2017.

As at December 31, 2019 and 2018, APIC amounted to \$1.49 million.

The Company has 238 and 237 shareholders as at December 31, 2019 and 2018, respectively.

**Capital Management**

The primary objective of the Company's capital management is to ensure that it maintains a strong credit standing and stable capital ratios in order to support its business and maximize shareholder value. The Company maintains its current capital structure and will make adjustments, if necessary, in order to generate a reasonable level of returns to stockholders over the long term. Moreover, in 2017, the Company undertook an equity restructuring which resulted in the elimination of capital deficit of \$32.00 million. No changes were made in the objectives, policies or processes during the year.

The Company considers the equity presented in the separate statements of financial position as its core capital.

For the purpose of the Company's capital management, capital includes issued capital, APIC and all other equity reserves. The primary objective of the Company's capital management is to maximize the shareholder value.

The Company manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Company monitors capital using debt-to-equity ratio, which is total debt divided by total equity.

The debt-to-equity ratio as at December 31, 2019 and 2018 follows:

| | **2019** | 2018 |
|---|---|---|
| Debt | **\$30,867,617** | \$37,657,952 |
| Equity | **30,477,473** | 31,925,001 |
| Debt-to-Equity Ratio | **1.01:1** | 1.18:1 |

Pursuant to the PSE's rules on minimum public ownership, at least 10% of the issued and outstanding shares of a listed company must be owned and held by the public. The public ownership is 32% as at December 31, 2019 and 2018.

The Company reviews its capital structure on an annual basis. As part of this review, the Company considers the cost of capital and the risks associated with it.

## 16. Net Sales

This account consists of:

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Canned tuna | **$59,589,381** | $60,005,125 | $38,141,005 |
| By-products | **2,342,071** | 1,925,100 | 1,629,005 |
| Wholefish | **300,733** | 6,222,808 | 1,550,185 |
| | **$62,232,185** | $68,153,033 | $41,320,195 |

Revenue from sale of goods is recognized at a point in time, which is upon delivery.

## 17. Cost of Goods Sold

This account consists of:

| | Note | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| Raw materials used | | **$49,914,051** | $54,505,641 | $30,795,714 |
| Direct labor | | **4,568,102** | 3,667,251 | 2,460,057 |
| Manufacturing overhead: | | | | |
| Warehousing | | **1,926,508** | 1,389,814 | 925,600 |
| Indirect labor | | **1,315,670** | 1,058,993 | 716,442 |
| Fuel | | **644,972** | 456,276 | 617,711 |
| Light and water | | **585,328** | 542,540 | 386,492 |
| Depreciation and amortization | 9 | **485,259** | 303,160 | 306,910 |
| Rental | 22 | **6,908** | 165,381 | 117,196 |
| Others | | **798,895** | 537,763 | 481,646 |
| Total manufacturing costs | | **60,245,693** | 62,626,819 | 36,807,768 |
| Finished goods, beginning | 6 | **6,107,992** | 3,658,870 | 3,818,280 |
| Total cost of goods manufactured | | **66,353,685** | 66,285,689 | 40,626,048 |
| Finished goods, ending | 6 | **(9,020,914)** | (6,107,992) | (3,658,870) |
| | | **$57,332,771** | $60,177,697 | $36,967,178 |

Other manufacturing overhead consists of interest from lease liabilities, repairs and maintenance, outside services, and insurance, among others.

## 18. Selling and Administrative Expenses

This account consists of:

| | Note | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| Salaries, wages and other benefits | | **$1,161,195** | $966,745 | $959,548 |
| Impairment losses on: | | | | |
| Inventories | 6 | **874,601** | 159,024 | 230,780 |
| Trade and other receivables | 5 | **–** | 23,000 | 57,275 |
| Outside services | | **556,632** | 628,007 | 713,560 |
| Taxes and licenses | | **503,993** | 438,782 | 447,433 |
| Buyer's claims | | **405,938** | 12,384 | 16,504 |
| Representation and entertainment | | **239,368** | 202,089 | 210,904 |
| Commission | | **232,013** | 210,080 | 79,637 |
| Transportation and travel | | **149,949** | 172,191 | 133,208 |
| Rental | 22 | **124,261** | 78,488 | 53,532 |
| Depreciation and amortization | 9 | **99,479** | 123,842 | 71,781 |
| Insurance | | **92,621** | 75,582 | 32,446 |
| Retirement benefit costs | 14 | **89,825** | 48,743 | 46,423 |
| Utilities and communication | | **55,501** | 49,752 | 48,896 |
| Materials and supplies | | **27,207** | 34,002 | 26,860 |
| Fuel and oil | | **22,255** | 25,660 | 22,192 |
| Others | | **162,039** | 167,932 | 116,060 |
| | | **$4,796,877** | $3,416,303 | $3,267,039 |

## 19. Other Income (Charges) - Net

This account consists of:

| | Note | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| Gain on disposal of investment in a subsidiary | 8 | **$983,994** | $– | $– |
| Realized foreign exchange gain (loss) | | **416,725** | 255,540 | (16,337) |
| Management fee | 13 | **343,264** | 418,020 | 400,000 |
| Bank charges | | **(270,469)** | (210,844) | (128,841) |
| Interest income | 4,13,22 | **138,094** | 150,137 | 263,613 |
| Unrealized foreign exchange gain (loss) | | **(137,470)** | 100,440 | (18,366) |
| Gain on reversal of allowance (impairment losses) on: | | | | |
| Due from PT IAFI | 13 | **18,128** | – | (6,667,442) |
| Investment in PT IAFI | 8 | **–** | – | (4,999,000) |
| Gain (loss) on disposal of property and equipment | 9 | **3,110** | (294) | 627 |
| Others | | **59,617** | 33,394 | 235,997 |
| | | **$1,554,993** | $746,393 | ($10,929,749) |

## 20. Employee Benefits

This account consists of:

| | Note | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| Short-term employee benefits | | **$5,729,297** | $4,366,996 | $3,188,231 |
| Post-employee benefits | 14 | **89,825** | 48,743 | 46,423 |
| | | **$5,819,122** | $4,415,739 | $3,234,654 |

## 21. Income (Loss) Per Share

The calculation of the basic and diluted income (loss) per share is based on the following data:

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Net income (loss) for the year | **($1,424,314)** | $3,018,984 | ($8,972,209) |
| Weighted average number of common shares issued and outstanding | **2,499,712,463** | 2,499,712,463 | 2,499,712,463 |
| | **($0.00057)** | $0.00121 | ($0.00359) |

The weighted average number of shares refers to shares in circulation during the period that is after the effect of treasury shares.

In 2019, 2018 and 2017, the Company has no dilutive potential share.

## 22. Lease Agreements

**Short-term Leases**

The Company entered into operating leases with third parties for its forklifts, container van, and warehouse. The contracts have a term ranging from six months to one year with varying monthly rental. The leases are renewable upon mutual agreement between parties.

Rental is distributed as follows:

| | Note | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| Cost of goods sold | 17 | **$6,908** | $165,381 | $117,196 |
| Operating expenses | 18 | **124,261** | 78,488 | 53,532 |
| | | **$131,169** | $243,869 | $170,728 |

**Long-term Leases**

*Plant.* On January 25, 2013, a long-term lease contract was executed by and between the Company and AMHI. The term shall be for a period of five years from January 1, 2013 until December 31, 2017, renewable every five years thereafter, upon terms and conditions mutually agreeable to the parties. Based on the contract, the rental fee shall be $56,572, subject to an annual escalation of 5% or the national inflation rate as published by the National Statistics Office, whichever is higher.

On January 1, 2018, the lease contract was amended. Based on the amended contract, the lease term is five years and the rental fee shall be $11,634 per month, subject to annual escalation of 5% or the national inflation rate as published by the National Statistics Office, whichever is higher, starting on the third year of the contract.

*Office.* The Company leases its head office from a third party lessor with a monthly rental of $3,688 for a period of three years from August 16, 2016 to August 15, 2018.

On August 13, 2018, the Company reported a change of its office address. The Company entered into a new lease agreement for its head office space with a new third party lessor on July 16, 2018, effective until July 15, 2023 and renewable upon mutual agreement of the parties. The monthly rental for the first two (2) years shall be $4,171, subject to an annual escalation of 5%.

Refundable lease deposits for plant and office amounted to $1.65 million and $1.60 million as at December 31, 2019 and 2018, respectively (see Note 10). This is to be returned upon expiration of the lease term. Interest income on accretion of refundable lease deposit for plant amounted to $67,752 in 2017.

The balance of and movements in lease liabilities follow:

| | Note | Amount |
|---|---|---|
| Balance at beginning of year | 2 | $652,392 |
| Interest | 12 | 56,475 |
| Offsetting with due from a related party | 13 | (134,510) |
| Rental payments | | (49,109) |
| Effect of foreign exchange loss | | 22,356 |
| Balance at end of year | | 547,604 |
| Less current portion | | 151,346 |
| Noncurrent portion | | $396,258 |

Lease liabilities were measured by discounting the remaining lease payments using the incremental borrowing rate of 9.54%. ROU assets were measured as if PFRS 16 has always been applied. The difference between the lease liabilities and ROU assets at initial recognition were adjusted to the opening retained earnings.

The amounts recognized in profit or loss is as follows:

| | Note | **2019** | 2018 | 2017 |
|---|---|---|---|---|
| Amortization | 9 | **$153,098** | $– | $– |
| Rental | | **131,169** | 243,869 | 170,728 |
| Interest | 12 | **56,475** | – | – |
| | | **$340,742** | $243,869 | $170,728 |

The future minimum lease payments and present value as at December 31, 2019 are as follows:

| | Minimum Lease Payments | Present Value |
|---|---|---|
| Not later than one year | $195,558 | $151,346 |
| Later than one year but not more than five years | 435,435 | 396,258 |
| | 630,993 | 547,604 |
| Finance charges | (83,389) | – |
| | $547,604 | $547,604 |

## 23. Corporate Social Responsibility

The Company has implemented a corporate social responsibility program to focus on the local workers' community welfare, as well as to promote a clean and healthy environment together with energy conservation. In 2019, the Company partnered with Mindanao State University (General Santos City campus) to launch the Bay of Gold scholarship, which aims to provide financial assistance to Marine Biology students of this campus.

## 24. Income Taxes

<u>Current Tax</u>

The Company's current income tax expense represents minimum corporate income tax amounting to $135,944, $162,817 and $94,961 in 2019, 2018 and 2017, respectively.

<u>Deferred Tax</u>

The components of the Company's net deferred tax assets as at December 31, 2019 and 2018 are as follows:

| | **2019** | 2018 |
|---|---|---|
| **Deferred Tax Assets** | | |
| Allowance for impairment losses on: | | |
| Other noncurrent assets | **$4,917,474** | $4,917,474 |
| Due from PT IAFI | **1,994,794** | 2,000,233 |
| Inventories | **272,940** | 58,513 |
| Receivables | **195,944** | 195,944 |
| Property, plant and equipment | **30,422** | 30,422 |
| MCIT | **257,778** | 258,198 |
| Retirement benefit obligation | **81,519** | 56,709 |
| Unrealized foreign exchange loss | **43,378** | – |
| Excess of depreciation and interest over rental payments | **13,542** | – |
| NOLCO | **–** | 1,318,074 |
| | **7,807,791** | 8,835,567 |
| **Deferred Tax Liabilities** | | |
| Remeasurement gain on retirement benefit obligation | **12,919** | 12,919 |
| Unrealized foreign exchange gain | **–** | 30,132 |
| | **12,919** | 43,051 |
| | **$7,794,872** | $8,792,516 |

In 2019, the Company's NOLCO amounting to $752,331 was applied against taxable income and expired portion of NOLCO amounted to $4.12 million.

The details of the Company's MCIT, which can be claimed as deduction from income tax liability, are as follows:

| Year Incurred | Amount | Expired | Balance | Expiry Year |
|---|---|---|---|---|
| 2019 | $135,944 | $– | $135,944 | 2022 |
| 2018 | 162,817 | – | 162,817 | 2021 |
| 2017 | 94,961 | – | 94,961 | 2020 |
| 2016 | 420 | (420) | – | 2019 |
| | $394,142 | ($420) | $393,722 | |

The Company did not recognize the following deferred tax assets since the management believes that future taxable income will not be available to allow the deferred assets to be utilized:

| | **2019** | 2018 |
|---|---|---|
| Excess MCIT over RCIT | **$135,944** | $– |
| NOLCO | – | 145,000 |
| | **$135,944** | $145,000 |

The reconciliation of provision for (benefit from) income tax computed at the statutory income tax rate and at effective income tax rate follows:

| | **2019** | 2018 | 2017 |
|---|---|---|---|
| Provision for (benefit from) income tax computed at statutory tax rate | **($84,233)** | $1,147,982 | ($3,183,922) |
| Tax effects of: | | | |
| Expired NOLCO | **1,237,375** | 213,051 | 202,803 |
| Interest income already subjected to final tax | **(1,650)** | (1,433) | (5,089) |
| Nondeductible interest expense | **681** | 591 | 2,099 |
| Nontaxable income | – | 671 | 57,761 |
| Effect of foreign exchange gain | – | 15,416 | – |
| Impairment loss on investment in PT IAFI | – | – | 1,499,700 |
| Interest income from accretion of refundable lease deposit | – | – | (20,326) |
| Change in unrecognized deferred tax assets | **(9,056)** | (603,878) | (263,150) |
| Expired MCIT | **420** | 35,221 | 69,260 |
| Provision for (benefit from) income tax computed at effective tax rate | **$1,143,537** | $807,621 | ($1,640,864) |

## 25. Fair Value of Financial Assets and Liabilities

The table below presents the carrying amounts and fair value of the Company's financial assets and financial liabilities as at December 31, 2019 and 2018.

| | **2019** | | 2018 | |
|---|---|---|---|---|
| | **Carrying Amount** | **Fair Value** | Carrying Amount | Fair Value |
| **Financial Assets** | | | | |
| At amortized cost: | | | | |
| Cash | **$1,263,394** | **$1,263,394** | $2,042,243 | $2,042,243 |
| Trade and other receivables | **9,787,419** | **9,787,419** | 9,468,730 | 9,468,730 |
| Due from related parties | **5,803,109** | **5,803,109** | 6,524,430 | 6,524,430 |
| Refundable lease deposits | **1,651,080** | **1,651,080** | 1,598,364 | 1,598,364 |
| | **$18,505,002** | **$18,505,002** | $19,633,767 | $19,633,767 |
| **Financial Liabilities** | | | | |
| At amortized cost: | | | | |
| Trade and other payables* | **$4,608,651** | **$4,608,651** | $6,133,340 | $6,133,340 |
| Loans payable | **23,247,743** | **23,247,743** | 30,925,743 | 30,925,743 |
| Lease liabilities | **547,604** | **547,604** | – | – |
| Due to Parent Company | **2,000,000** | **2,000,000** | – | – |
| | **$30,403,998** | **$30,403,998** | $37,059,083 | $37,059,083 |

** Excluding customers' deposits and statutory payable*

The following methods and assumptions are used to estimate the fair value of the Company's financial assets and liabilities:

*Cash, Trade and Other Receivables, Due from Related Parties, Trade and Other Payables (excluding Customers' Deposits and Statutory Payable), Due to Parent Company and Refundable Lease Deposits.* The carrying amounts of these financial instruments approximate their fair values due to the relatively short-term maturity of these financial instruments. These financial assets and liabilities are classified under Level 3 of the fair value hierarchy groups of the separate financial statements.

*Lease Liabilities and Loans Payable.* The fair values of these financial instruments are determined based on the discounted cash flow analysis using effective interest rates for similar types of instruments. These financial assets and liabilities are classified under Level 3 of the fair value hierarchy groups of the separate financial statements.

Generally, an increase or decrease in the incremental after-tax cash flows will result in an increase or decrease in the fair value of lease liabilities and loans payable. An increase or decrease in discount rate will result in a decrease or increase in the fair value of these financial liabilities.

The fair value hierarchy groups the financial assets and liabilities into Levels 1 to 3 based on the degree to which the fair value is observable. There were no transfers among levels in 2019, 2018 and 2017.

## 26. Financial Risk Management Objectives and Policies

The Company's financial instruments comprise of cash, trade and other receivables, due from related parties, refundable lease deposits, trade and other payables (excluding customers' deposits and statutory payable), lease liabilities, loans payable and due to Parent Company. The main purpose of these financial instruments is to finance the Company's operations.

The Company is exposed to market risk, credit risk and liquidity risk. The Company's management oversees the management of these risks. The Company's BOD and management review and approve the policies for managing each of the risks, which are summarized below.

**Market Risk**
Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign currency risk, interest rate risk and other price risk, such as equity price risk and commodity risk. Financial instruments affected by market risk include loans and borrowings, deposits, debt and equity investments and derivative financial instruments.

The sensitivity analyses in the following sections relate to the position as at December 31, 2019 and 2018.

The following assumptions have been made in calculating the sensitivity analyses:

- The sensitivity of the relevant items in the separate statements of comprehensive income is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at December 31, 2019 and 2018.

- The sensitivity of equity is calculated by considering the effect of any associated cash flow hedges and hedges of a net investment in a foreign operation at December 31, 2019 for the effects of the assumed changes of the underlying risk.

*Foreign Currency Risk.* Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's operating activities (when revenue or expense is denominated in a foreign currency) and the Company's net investments in foreign subsidiaries.

The Company has transactional currency exposures arising from purchase and construction contract transactions denominated in currencies other than the reporting currency. The Company does not enter into forward contracts to hedge currency exposures. To mitigate the Company's exposure to foreign currency risk, foreign currency cash flows and fluctuations in the foreign exchange rates are monitored.

The carrying amounts of the Company's foreign currency-denominated monetary assets and monetary liabilities at the reporting dates are as follows:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | **Philippine Peso** | **U.S. Dollar Equivalent** | Philippine Peso | U.S. Dollar Equivalent |
| Cash | **₱12,830,706** | **$253,396** | ₱24,747,513 | $470,664 |
| Trade and other receivables | **13,417,465** | **264,984** | 12,070,002 | 229,555 |
| Due from related parties | **124,953,652** | **2,467,733** | 131,942,359 | 2,509,364 |
| Refundable lease deposits | **83,602,436** | **1,651,080** | 84,041,979 | 1,598,364 |
| Trade and other payables* | **98,239,242** | **1,940,145** | 163,960,845 | 3,118,312 |
| Lease liabilities | **27,727,929** | **547,604** | – | – |
| Loans payable | **852,577** | **16,838** | 114,766,629 | 2,182,705 |
| Due to Parent Company | **101,270,000** | **2,000,000** | – | – |

** Excluding customers' deposits and statutory payable*

*Foreign Currency Sensitivity Analysis.* The sensitivity analysis includes all of the Company's foreign currency-denominated monetary assets and liabilities. A positive number indicates an increase in income before tax when the U.S. Dollar strengthens against the relevant currency. For the weakening of the U.S. Dollar against the Philippine Peso, there would be an equal and opposite impact on the income before tax.

The following table demonstrates the sensitivity to a 4% and 6% change in USD exchange rates, with all other variables held constant, in 2019 and 2018, respectively:

| | Effect on Income Before Tax | |
|---|---|---|
| | **2019** | 2018 |
| Cash | **$10,896** | $28,240 |
| Trade and other receivables | **11,394** | 13,773 |
| Due from related parties | **106,113** | 150,562 |
| Refundable lease deposits | **70,996** | 95,902 |
| Trade and other payables | **(83,426)** | (187,099) |
| Lease liabilities | **(23,547)** | – |
| Loans payable | **(724)** | (130,962) |
| Due to Parent Company | **(86,000)** | – |
| | **$5,702** | ($29,584) |

*Interest Rate Risk.* Interest rate risk is the possibility that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rate.

The source of the Company's interest rate risk relates to due to related parties as disclosed in Note 13. The balance is both short-term in nature and with the current interest rate level, any variation in the interest will not have a material impact on the net income or loss of the Company.

**Credit Risk**

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily trade receivables) and from its deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

The table below shows the gross maximum exposure of the Company to credit risk before taking into consideration collateral and other credit enhancements:

| | **2019** | 2018 |
|---|---|---|
| Cash | **$1,263,394** | $2,042,243 |
| Trade and other receivables | **10,440,566** | 10,121,877 |
| Due from related parties | **12,452,423** | 13,191,872 |
| Refundable lease deposits | **1,651,080** | 1,598,364 |
| | **$25,807,463** | $26,954,356 |

*Risk Management.* Credit risk is managed on a group basis. The Company deals only with reputable banks and customer to limit this risk. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, the Company assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the management. The compliance with credit limits by customers is regularly monitored by management.

Sales to customers are required to be settled in cash, mitigating credit risk. There are no significant concentrations of credit risk, whether through exposure to individual customers, specific industry sectors and/or regions.

| | **2019** | | | | |
|---|---|---|---|---|---|
| | **Neither Past Due nor Impaired** | | | | |
| | **High Grade** | **Standard Grade** | **Past due but Not Impaired** | **Impaired** | **Total** |
| Cash | **$1,263,394** | **$–** | **$–** | **$–** | **$1,263,394** |
| Trade and other receivables | **–** | **5,915,307** | **3,872,112** | **653,147** | **10,440,566** |
| Due from related parties | **–** | **5,803,109** | **–** | **6,649,314** | **12,452,423** |
| Refundable lease deposits | **1,651,080** | **–** | **–** | **–** | **1,651,080** |
| | **$2,914,474** | **$11,718,416** | **$3,872,112** | **$7,302,461** | **$25,807,463** |

| | 2018 | | | | |
|---|---|---|---|---|---|
| | Neither Past Due nor Impaired | | | | |
| | High Grade | Standard Grade | Past due but Not Impaired | Impaired | Total |
| Cash | $2,042,243 | $– | $– | $– | $2,042,243 |
| Trade and other receivables | – | 5,338,554 | 4,130,176 | 653,147 | 10,121,877 |
| Due from related parties | – | 6,524,430 | – | 6,667,442 | 13,191,872 |
| Refundable lease deposits | 1,598,364 | – | – | – | 1,598,364 |
| | $3,640,607 | $11,862,984 | $4,130,176 | $7,320,589 | $26,954,356 |

As at December 31, 2019 and 2018, the amount of cash and refundable lease deposits are neither past due nor impaired and were classified as *"High Grade"*, while trade and other receivables and due from related parties were classified as *"Standard Grade"*.

The credit quality of such loans and receivables is managed by the Company using the internal credit quality ratings as follows:

- *High Grade.* Pertains to counterparty who is not expected by the Company to default in settling its obligations, thus credit risk exposure is minimal. This normally includes large prime financial institutions and companies. Credit quality was determined based on the credit standing of the counterparty.

- *Standard Grade.* Other financial assets not belonging to high-grade financial assets are included in this category.

- *Substandard Grade.* Substandard grade financial assets are those which are considered worthless. These are accounts which have the probability of impairment based on historical trend.

*Impairment.* For trade and other receivables, the Company applies the simplified approach in measuring ECL, which uses a lifetime expected loss allowance. To measure the ECL, trade and other receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are initially based on the Company's historical default rates. These historical default rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Company has identified the GDP of the locations in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

The assessment of the correlation between historical default rates, forecast economic conditions and ECL is a significant estimate. The amount of ECL is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of the customer's actual default in the future.

The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written-off if past due for more than one year and are not subject to enforcement activity.

For other financial assets at amortized cost, the ECL is based on the 12-month ECL, which pertains to the portion of lifetime ECL that result from default events on a financial instrument that are possible within 12 months after the reporting date.

The Company's provision for impairment loss is disclosed in Notes 5 and 13.

**Liquidity Risk**

Liquidity risk refers to the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's objective of managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following table details the Company's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows.

| | **December 31, 2019** | | | |
|---|---|---|---|---|
| | **Contractual Cash Flows** | | | |
| | **Weighted Average Effective Interest Rate** | **Less than 1 Year** | **1 to 5 Years** | **Total** |
| Trade and other payables* | **–** | **$4,608,651** | **$–** | **$4,608,651** |
| Loans payable | **5.00% - 9.59%** | **21,740,440** | **1,507,303** | **23,247,743** |
| Lease liabilities | **9.54%** | **151,346** | **396,258** | **547,604** |
| Due to Parent Company | **6.31%** | **–** | **2,000,000** | **2,000,000** |
| Future interest | **5.00% - 9.59%** | **94,718** | **425,311** | **520,029** |
| | | **$26,595,155** | **$4,328,872** | **$30,924,027** |

** Excluding customers' deposits and statutory payable*

| | December 31, 2018 | | | |
|---|---|---|---|---|
| | Contractual Cash Flows | | | |
| | Weighted Average Effective Interest Rate | Less than 1 Year | 1 to 5 Years | Total |
| Trade and other payables* | – | $6,133,340 | $– | $6,133,340 |
| Loans payable | 4.50% - 9.59% | 30,901,646 | 24,097 | 30,925,743 |
| Future interest | 4.50% - 9.59% | 2,919 | 2,266 | 5,185 |
| | | $37,037,905 | $26,363 | $37,064,268 |

** Excluding customers' deposits and statutory payable*

## 27. Reconciliation of Liabilities Arising from Financing Activities

The table below details changes in the Company's liabilities arising from financing activities, including cash and noncash changes:

| | | Financing Cash Flows | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | Availments | Payments | Recognition | Interest Expense | Foreign Exchange Gain | Offsetting | 2019 |
| Loans payable | $30,925,743 | $60,647,571 | ($68,325,571) | $– | $– | $– | $– | $23,247,743 |
| Due to Parent Company | – | 2,000,000 | – | – | – | – | – | 2,000,000 |
| Lease liabilities | – | – | (49,109) | 652,392 | 56,475 | 22,356 | (134,510) | 547,604 |
| Interest payable | 155,469 | – | (1,968,462) | – | 1,922,751 | – | – | 109,758 |
| Note payable | – | 3,000,000 | (3,000,000) | – | – | – | – | – |
| | $31,081,212 | $65,647,571 | ($73,343,142) | $652,392 | $1,979,226 | $22,356 | ($134,510) | $25,905,105 |

| | | Financing Cash Flows | | | | |
|---|---|---|---|---|---|---|
| | 2017 | Availments | Payments | Interest Expense | Foreign Exchange Gain | 2018 |
| Loans payable | $24,301,950 | $48,406,144 | ($41,777,955) | $– | ($4,396) | $30,925,743 |
| Interest payable | 73,736 | – | (1,397,088) | 1,478,821 | – | 155,469 |
| Notes payable | 3,450,000 | – | (3,450,000) | – | – | – |
| Due to Parent Company | 2,002,804 | – | (2,002,804) | – | – | – |
| | $29,828,490 | $48,406,144 | ($48,627,847) | $1,478,821 | ($4,396) | $31,081,212 |

## 28. Events after the Reporting Period

In March 2020, the COVID-19 outbreak was declared to be a global pandemic by the World Health Organization causing the government to declare the country in a state of public health emergency followed by the implementation of mandated lockdown all over the country resulting in a slowdown in the Philippine economy.

Management has determined that such event has no impact on the Company's separate financial statements as at and for the year ended December 31, 2019. Although, the Company anticipates that the COVID-19 will have a material impact on its business operations, financial condition, results of operations, and cash flows in 2020, the impact cannot be reasonably estimated as at June 10, 2020. The Company continues to monitor the situation closely and may implement further measures to provide additional financial flexibility and improve the Company's cash position and liquidity.

Notwithstanding the situation, the Company strongly believes that it can remain a going concern given the essential nature of its business and its access to short-term and long-term funding.

REYES TACANDONG & CO.
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BOA/PRC Accreditation No. 4782
October 4, 2018, valid until August 15, 2021
SEC Accreditation No. 0207-FR-3 (Group A)
August 29, 2019, valid until August 28, 2022

**REPORT OF INDEPENDENT AUDITORS**
**TO ACCOMPANY SEPARATE FINANCIAL STATEMENTS FOR FILING WITH THE SECURITIES AND EXCHANGE COMMISSION**

The Stockholders and the Board of Directors
Alliance Select Foods International, Inc.
Suite 3104A, West Tower
Philippine Stock Exchange Centre
Exchange Road, Ortigas Avenue, Pasig City

We have audited the accompanying separate financial statements of Alliance Select Foods International, Inc. (a subsidiary of Strongoak Inc.) (the "Company") as at December 31, 2019 and 2018 and for the years ended December 31, 2019, 2018 and 2017, on which we have rendered our report dated June 10, 2020.

In compliance with the Revised Securities Regulation Code Rule 68, we are stating that the Company has two hundred twenty-three (223) and two hundred twenty-two (222) stockholders owning one hundred (100) or more shares each as at December 31, 2019 and 2018, respectively.

**REYES TACANDONG & CO.**

EMMANUEL V. CLARINO
Partner
CPA Certificate No. 27455
Tax Identification No. 102-084-004-000
BOA Accreditation No. 4782; Valid until August 15, 2021
SEC Accreditation No. 27455-SEC Group A
Valid until January 27, 2025
BIR Accreditation No. 08-005144-005-2019
Valid until October 16, 2022
PTR No. 8116470
Issued January 6, 2020, Makati City

June 10, 2020
Makati City, Metro Manila

BOA/PRC Accreditation No. 4782
October 4, 2018, valid until August 15, 2021
SEC Accreditation No. 0207-FR-3 (Group A)
August 29, 2019, valid until August 28, 2022

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**REPORT OF INDEPENDENT AUDITORS**
**ON SUPPLEMENTARY SCHEDULE OF RECONCILIATION OF**
**RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION**

The Stockholders and the Board of Directors
Alliance Select Foods International, Inc.
Suite 3104A, West Tower
Philippine Stock Exchange Centre
Exchange Road, Ortigas Avenue, Pasig City

We have audited in accordance with Philippine Standards on Auditing the separate financial statements of Alliance Select Foods International, Inc. (a subsidiary of Strongoak Inc.) (the "Company") as at December 31, 2019 and 2018, and for the years ended December 31, 2019, 2018 and 2017, and have issued our report thereon dated June 10, 2020. Our audits were made for the purpose of forming an opinion on the basic separate financial statements taken as a whole. The accompanying supplementary schedules are the responsibility of the Company's management. The accompanying Supplementary Schedule of Reconciliation of Retained Earnings Available for Dividend Declaration as at December 31, 2019 is the responsibility of the Company's management. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 and is not part of the basic separate financial statements. The information in this schedule has been subjected to the auditing procedures applied in our audits of the basic separate financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic separate financial statements taken as a whole.

**REYES TACANDONG & CO.**

EMMANUEL V. CLARINO
Partner
CPA Certificate No. 27455
Tax Identification No. 102-084-004-000
BOA Accreditation No. 4782; Valid until August 15, 2021
SEC Accreditation No. 27455-SEC Group A
Valid until January 27, 2025
BIR Accreditation No. 08-005144-005-2019
Valid until October 16, 2022
PTR No. 8116470
Issued January 6, 2020, Makati City

June 10, 2020
Makati City, Metro Manila

**ALLIANCE SELECT FOODS INTERNATIONAL, INC.**
**(A Subsidiary of Strongoak Inc.)**

## SUPPLEMENTARY SCHEDULE OF RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION

**December 31, 2019**

| | | |
|---|---|---|
| **Retained earnings available for dividend declaration at beginning of year, as adjusted** | | ($37,274,227) |
| **Less net loss actually realized during the year:** | | |
| Net loss during the year closed to retained earnings | ($1,424,314) | |
| Provision for income tax - deferred | 1,007,593 | (416,721) |
| **Retained earnings available for dividend declaration at end of year** | | ($37,690,948) |

| | | |
|---|---|---|
| *Reconciliation:* | | |
| Retained earnings at end of year | | $2,069,605 |
| Less: | | |
| Effect of equity restructuring | ($31,998,844) | |
| Net deferred tax assets at end of year | (7,794,872) | |
| Effect of adoption of PFRS 16 | 33,163 | (39,760,553) |
| Total retained earnings available for dividend declaration at end of year | | ($37,690,948) |

**JRS EXPRESS**

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Operating Under Rep. Act. 3260
VAT REG. TIN 000-056-694-000
#19 Brixton St., Kapitolyo, Pasig City
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Fax No. 8631-7357
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## SHIPPER INFORMATION

Date: 08/07/2020 Origin: Head Office
Client Type: Cash Services: Express Service
Package Type: Express Box Small
Weight: 6 Kilo
Description / Content: Documents

Destination : Pasay City, Metro Manila
Shipper's Name: GINO MARCO PANTOJA BAUTISTA/ ALLIANCE SELECT FOODS INTERNATIONAL, INC.
Shipper's Address: 35-D SCOUT TORILLO ST., SACRED HEART,QUEZON CITY
Contact Number: 639178799258

## CONSIGNEE

Name: ELECTRONIC RECORDS MANAGEMENT DIVISION ICTD
Address: SECURITY & EXCHANGE COMMISSION SECRETARIAT BLDG. PICC C X ROXAS BLVD. PASAY CITY , Pasay City, Metro Manila

Contact #:
Special Instructions:

## WAIVER OF RIGHTS

After being informed of my right to declare the amount of the shipment and having opted not do so, I hereby waive my right to claim its actual value in the event of loss or damage of my cargo.

I hereby declare that the content of my shipment conforms with the restrictions being implemented by JRS BUSINESS CORPORATION in accordance with the laws of the Republic of the Philippines.

CONFORME:

Shipper's Signature Over Printed Name

## RECEIVED IN GOOD ORDER AND CONDITION

Received by:
Signature:
Date Received:
Time:
Relationship to Addressee:

Delivered by :
Delivery Branch:

## PAYMENT

| | |
|---|---|
| Freight Charge: | 528.00 |
| Valuation: | 0.00 |
| Insurance: | 0.00 |
| Pick-up Fee: | 0.00 |
| JRS Box: | 0.00 |
| Others: | 0.00 |
| Total Amount: | 528.00 |

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*Cashier/Collector Name* **Catherine Ramirez**

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Looseleaf Permit No.: LLAR-043-0819-000136 Date: August 06, 2019