

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

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(Company's Full Name)

**1206 East Tower PSEC Exchange Rd.  
Ortigas Center Pasig City**

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(Company's Address)

**635-5241 to 44**

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(Telephone Number)

**December 31**

---

(Calendar Year Ending)  
(month & day)

**SEC FORM 17-Q**

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(Form Type)

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(Amendment Designation if applicable)

**For the Nine Months Ended September 30, 2017**

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(Period Ended Date)


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(Secondary License Type and File Number)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended September 30, 2017
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. 1206 East Tower PSEC Exchange Rd. Ortigas Center Pasig City 1605  
Address of issuer's principal office Postal Code
8. 635-5241 to 44  
Issuer's telephone number, including area code
9. Not Applicable  
Former name, former address and former fiscal year, if changed since last report
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the  
RSA

<u>Title of each Class</u>	<u>Number of shares of common stock outstanding and amount of debt outstanding</u>
<b>Common shares, P1.00 Par Value</b>	<b>2,499,712,463 shares</b>

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 – FINANCIAL INFORMATION

### Item 1. Financial Statements

The unaudited financial statements of Alliance Select Foods International, Inc. (the “Company” or “Parent Company”) and its Subsidiaries (collectively referred to as the “Group”) as at and for the nine months ended September 30, 2017 (with comparative figures as at December 31, 2016 and for the period ended September 30, 2016) and Selected Notes to the Consolidated Financial Statements are hereto attached as Annex “A”.

The unaudited financial statements of the Group are presented in US\$, the currency of the primary economic environment in which the Group operates.

### Item 2. Management’s discussion and analysis of financial condition and results

The following discussions should be read in conjunction with the attached unaudited financial statements of the Group as at and for the nine months ended September 30, 2017 with comparative figures as at December 31, 2016 and for the period ended September 30, 2016, as appropriate.

The table below shows the comparison of the operating result for the nine months period ended September 30, 2017 versus the same period in 2016.

In USD'000	For the Nine Months Ended September 30	
	2017	2016
Revenue – net	\$53,161	\$45,764
Gross Profit	6,499	2,489
Gross Profit Margin	12%	5%
Selling and Administrative Expenses	5,312	4,798
Other Income	404	472
Other Expenses	110	82
Finance Costs	538	702
Income Before Tax	943	(2,621)
Income Tax Expense (Benefit)	463	(349)
Income (Loss) for the Period	480	(2,272)
Attributable to:		
Equity holders of the parent	414	(2262)
Non-controlling interest	65	(9)
	480	(2,272)

### Results of operations

#### Nine months ended September 30, 2017 versus September 30, 2016

- The Group’s consolidated net revenues for the nine months ended September 30, 2017 reached \$53.16 million, a 16% growth compared to the same period last year. This year’s better revenue performance was mainly driven by ASFI and Akaroa. PT IAFI’s struggle to contribute revenues and operating profits partially offset the revenue growth of the Group. Indonesian fishing regulations have restricted foreign commercial fishing in Indonesian waters, resulting in higher fish prices and significantly insufficient supply for tuna canneries across Indonesia.

- About 61% of total revenues is contributed by tuna and related product sales, and the remaining 39% is contributed by the salmon business: a slight change from last year's 62:38 tuna to salmon sales ratio.
- The year to date gross profit is at \$6.5M or 12% GP rate which is a significant 7ppts increase from the same period last year.
- Other Income is comprised mainly of net foreign exchange gain/loss, interest income and gain on sales of property and equipment, while Other Expenses pertains to bank charges.
- Selling and Administrative expenses during the period increased by 11% compared to the same period last year primarily due to the increase in freight and handling costs as a direct effect of the increase of one of the subsidiary's net export sales, and an additional inventory provision in ASFL.
- Finance costs during the period declined by 23% compared to the same period last year due to the repayment of high cost bank loans and efficient working capital management.

### **Financial Condition, Liquidity, and Capital Resources September 30, 2017 vs. December 31, 2016**

The Group's total assets increased by 9% or \$5.45 million from \$59.86 million as at December 31, 2016 to \$65.31 million as at September 30, 2017. The high Accounts Receivable balance is the result of significantly higher sales in August and September. The increase in inventory is mainly on the significant purchase of tuna fish for the last quarter's production. The Group's total liabilities increased by 18% or \$4.99 million versus same period last year.

The Group's total liability to equity ratio is 0.94:1 as at September 30, 2017 compared to 0.80:1 as at December 31, 2016.

### **Plan of Operation**

The Group does not foresee any cash flow or liquidity problem over the next twelve (12) months. 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 September 30, 2017, there were no other material events or uncertainties known to management 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.

## Financial Position

As at September 30, 2017 versus December 31, 2016

The decrease in Cash is primarily due to the current accounts receivable from August and September 2017 sales, due for collection in the following months.

Trade and other payables increased by 97% because of purchases of raw materials during the period.

## KEY PERFORMANCE INDICATORS

The Group uses the following key performance indicators in order to assess the Group's financial performance from period to period. Analyses are made using comparisons and measurements of the financial data for the periods indicated below:

Liquidity and Solvency	September 30, 2017	December 31, 2016
Current ratio	0.92	0.87
Debt to equity ratio	0.94	0.80

For the Nine Months Ended September 30

Profitability	2017	2016
Revenue growth rate	16%	-19%
Net profit margin	0.78%	-4.94%
Return on average stockholders' equity	1.28%	-6.13%

The following defines each ratio:

- Liquidity ratio (expressed in proportion) = current assets / current liabilities
- Debt to equity ratio (expressed in proportion) = total liabilities / total stockholders' equity
- Revenue growth rate (expressed in percentage) = (current year's revenue – previous year's revenue) / previous year's revenue
- Net profit margin (expressed in percentage) = net income attributable to equity holders of parent / net revenues
- Return on average stockholders' equity (expressed in percentage) = net income attributable to equity holders of the parent / average stockholders' equity

**PART II--OTHER INFORMATION**

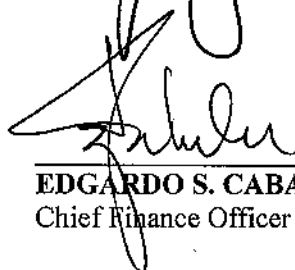
All current disclosures were already reported under SEC Form 17-C.

**SIGNATURES**

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

**ALLIANCE SELECT FOODS INTERNATIONAL, INC.**

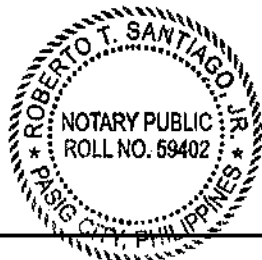
  
\_\_\_\_\_  
**RAYMOND K.H. SEE**  
President and Chief Executive Officer


  
\_\_\_\_\_  
**EDGARDO S. CABALDE**  
Chief Finance Officer

**SUBSCRIBED AND SWORN** to before me this NOV 10 2017 at PASIG CITY affiants exhibiting to me their government issued identification cards, as follows:

NAMES	GOV'T.ISSUED ID NO.	DATE OF ISSUE	PLACE OF ISSUE	EXPIRATION
Raymond K.H. See	Passport-EC3695414	03-17-2015	DFA, NCR East	03-16-2020
Edgardo S. Cabalde	Passport-EC0256576	02-10-2014	DFA, Manila	02-09-2019

Doc. No. 224  
Page No. 48  
Book No. 113  
Series of 2017



  
**ROBERTO T. SANTIAGO, JR.**  
Notary Public for Pasig City  
Commission No. 202 until December 2018  
Roll of Attorneys No. 59402  
PTR No. 2535161/01.13.2017/Pasig City  
IBP No. 1057960/01.06.2017/RSM  
MCLE Compliance No. V-002476  
12<sup>th</sup> Floor, East Tower, Philippine Stock Exchange Centre  
Exchange Road, Ortigas Center, Pasig City

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

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**(With Comparative Figures for 2016)**

	Note	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	7	\$2,731,283	\$7,396,343
Trade and other receivables	8	12,835,211	6,724,908
Inventories	9	12,877,480	7,953,765
Other current assets	10	952,373	1,530,195
Total Current Assets		\$29,396,347	23,605,211
<b>Noncurrent Assets</b>			
Property, plant and equipment	11	16,687,388	17,007,323
Deferred tax assets	26	8,202,827	8,273,039
Goodwill	5	9,502,585	9,502,585
Other noncurrent assets	12	1,518,991	1,473,129
Total Noncurrent Assets		35,911,791	36,256,076
		\$65,308,138	\$59,861,287
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Trade and other payables	13	\$11,979,296	\$6,070,258
Loans payable	14	19,913,938	20,830,183
Due to a related party	15	141,153	136,112
Income tax payable		52,511	91,571
Total Current Liabilities		32,086,898	27,128,124
<b>Noncurrent Liabilities</b>			
Loans payable - net of current portion	14	114,485	54,446
Net retirement benefit obligation	16	194,590	184,914
Deferred tax liabilities	26	270,998	289,201
Refundable lease deposits		70,364	92,395
Total Noncurrent Liabilities		650,437	620,956
Total Liabilities		32,737,335	27,749,080
<b>Equity</b>			
Capital stock	17	53,646,778	53,646,778
Additional paid-in capital		6,662,001	6,662,001
Other comprehensive income		918,032	948,999
Deficit		(26,254,741)	(26,669,068)
		34,972,070	34,588,710
Treasury shares	17	(5,774)	(5,774)
Equity attributable to equity holders of the Parent			
Company		34,966,296	34,582,936
Non-controlling interests		(2,395,493)	(2,470,729)
Total Equity		32,570,803	32,112,207
		\$65,308,138	\$59,861,287

See accompanying Notes to Consolidated Financial Statements.



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

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE QUARTER ENDED NINE MONTHS ENDED SEPTEMBER 30, 2017**  
(With Comparative Figures for 2016)

	Note	For the Quarter Ended September 30		For the Nine Months Ended September 30	
		2017	2016	2017	2016
NET SALES	18	\$18,415,455	\$14,259,486	\$53,160,895	\$45,763,879
COST OF GOODS SOLD	19	(16,143,138)	(13,672,929)	(46,661,409)	(43,274,392)
GROSS PROFIT		2,272,317	(586,557)	6,499,486	2,489,487
SELLING AND ADMINISTRATIVE EXPENSES	20	(1,868,033)	(1,543,132)	(5,312,300)	(4,798,164)
INTEREST EXPENSE		(164,379)	(193,510)	(538,102)	(702,342)
EQUITY IN NET EARNINGS (LOSSES)					
OTHER INCOME (CHARGES)	21	146,645	38,323	293,791	390,222
INCOME (LOSS) BEFORE INCOME TAX		386,550	(1,111,762)	942,875	(2,620,797)
INCOME TAX EXPENSE	26	230,558	(82,506)	463,213	(349,107)
NET INCOME (LOSS)		155,992	(1,029,256)	479,662	(2,271,690)
OTHER COMPREHENSIVE INCOME (LOSS)					
<i>Items that will be reclassified subsequently to profit or loss</i>					
Exchange differences on translation of foreign operations		(51,359)	-	(21,065)	(6,076)
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>		<b>\$104,633</b>	<b>(\$1,029,256)</b>	<b>\$458,597</b>	<b>(\$2,277,766)</b>
<b>NET INCOME (LOSS) ATTRIBUTABLE TO:</b>					
Equity holders of the Parent Company		\$142,864	(\$1,020,402)	\$414,327	(\$2,262,444)
Noncontrolling interests		13,128	(8,854)	65,335	(9,246)
		\$155,992	(\$1,029,256)	\$479,662	(\$2,271,690)
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>					
<b>ATTRIBUTABLE TO:</b>					
Equity holders of the Parent Company		\$91,207	(\$1,020,402)	\$383,360	(\$2,275,758)
Noncontrolling interests		13,426	(8,854)	75,237	(2,008)
		\$104,633	(\$1,029,256)	\$458,597	(\$2,277,766)
<b>EARNINGS PER SHARE</b>					
Basic and diluted earnings per share	23			\$0.00017	(\$0.00091)

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**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017**  
**(With Comparative Figures for 2016)**

	Note	September 30, 2017	December 31, 2016	September 30, 2016	December 31, 2015
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS</b>					
<b>OF THE PARENT COMPANY</b>					
<b>Capital Stock</b>					
	17				
Balance at beginning of year		\$53,646,778	\$53,646,778	\$53,646,778	\$32,238,544
Additional subscription		-	-	-	21,408,234
Balance at end of period		53,646,778	53,646,778	53,646,778	53,646,778
<b>Additional Paid-in Capital</b>					
Balance at beginning of year		6,662,001	6,662,001	6,662,001	6,768,843
Addition		-	-	-	-
Stock issue cost		-	-	-	(106,842)
Balance at end of period		6,662,001	6,662,001	6,662,001	6,662,001
<b>Other Comprehensive Income</b>					
<i>Cumulative Remeasurement on Retirement Obligation</i>					
	16				
Balance at beginning of year		55,190	(48,352)	(48,352)	(123,446)
Remeasurement gain (loss) on retirement		-	103,542	-	75,094
Balance at end of period		55,190	55,190	(48,352)	(48,352)
<i>Revaluation Reserves</i>					
Balance at beginning of year		275	275	275	86,457
Effect of deconsolidation		-	-	-	(71,677)
Share in other comprehensive income( loss) of a joint venture		-	-	-	(14,505)
Balance at end of period		275	275	275	275
<i>Cumulative Translation Adjustment</i>					
Balance at beginning of year		893,534	998,568	998,568	183,256
Exchange differences on foreign currency translation		(30,967)	(105,034)	(13,314)	815,312
Balance at end of period		862,567	893,534	985,254	998,568
Total balance at end of year of other comprehensive income		918,032	948,999	937,177	950,491
<b>Deficit</b>					
Balance at beginning of year		(26,669,068)	(20,700,539)	(20,700,539)	(14,898,404)
Effect of deconsolidation		-	-	-	590,257
Net income (loss)		414,326	(5,968,529)	(2,262,444)	(6,392,392)
Balance at end of period		(26,254,742)	(26,669,068)	(22,962,983)	(20,700,539)
<b>Treasury Shares</b>	17	(5,774)	(5,774)	(5,774)	(5,774)
<b>NON-CONTROLLING INTERESTS</b>					
Balance at beginning of year		(2,470,729)	(2,488,979)	(2,488,979)	(918,814)
Total comprehensive income (loss) attributable to non-controlling interests		75,237	18,250	(2,008)	(1,570,165)
Balance at end of period		(2,395,492)	(2,470,729)	(2,490,987)	(2,488,979)
		<b>\$32,570,803</b>	<b>\$32,112,207</b>	<b>\$35,786,212</b>	<b>\$38,063,978</b>

See accompanying Notes to Consolidated Financial Statements.

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017**  
**(With Comparative Figures for 2016)**

	Note	September 30, 2017	September 30, 2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax		\$942,874	(\$2,620,797)
Adjustments for:			
Depreciation and amortization		854,003	797,008
Interest expense	14	538,103	702,342
Unrealized foreign exchange loss (gain) – net		4,536	(97,508)
Retirement benefit	16	64,511	68,598
Interest income		(94,515)	(73,748)
Gain on disposal of property, plant and equipment	21	(58,618)	(23,619)
Operating income (loss) before working capital changes		2,250,894	(1,247,724)
Decrease (increase) in:			
Trade and other receivables		(6,083,657)	(366,076)
Inventories		(4,923,715)	(3,688,143)
Other current assets		577,822	(446,487)
Other noncurrent assets		(47,229)	207,510
Increase (decrease) in trade and other payables		5,907,681	607,531
Net cash generated from (used for) operations		(2,318,204)	(4,933,389)
Income tax paid		(450,264)	(472,653)
Interest received		94,515	73,748
Contribution to retirement fund	16	(98,215)	(61,936)
Net cash provided by (used in) operating activities		(2,772,168)	(5,394,230)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions to property, plant and equipment		(563,885)	(631,305)
Proceeds from sale of property, plant and equipment		58,618	14,418
Net cash used in investing activities		(505,267)	(616,887)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from:			
Availment of bank loans		18,776,638	26,074,913
Payments of:			
Bank loans		(19,494,250)	(32,976,163)
Interest		(538,103)	(702,342)
Decrease in due to a related party			
Net cash used in financing activities		(1,255,715)	(7,603,592)
<b>EFFECTS OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>			
		(131,910)	29,584
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>(4,665,060)</b>	<b>(13,585,125)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<b>7,396,343</b>	<b>17,594,979</b>
<b>CASH AND CASH EQUIVALENTS AT END OF QUARTER</b>		<b>\$2,731,283</b>	<b>\$4,009,854</b>

See accompanying Notes to Consolidated Financial Statements

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**AS AT SEPTEMBER 30, 2017 AND DECEMBER 31, 2016 AND FOR THE NINE MONTHS ENDED**  
**SEPTEMBER 30, 2017 AND 2016**

**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. acquired 952,479,638 Parent Company common shares from the increase in authorized capital stock and stock rights offering, which were both approved by the SEC on October 28, 2015 (see Note 17). This resulted in Strongoak Inc. becoming the Parent Company of ASFII for owning a total of 1,382,765,864 common shares, representing 55.32% of the total issued and outstanding shares of the Parent Company (see Note 17).

Strongoak Inc., the immediate parent of ASFII, is a domestic company engaged in investment activities. The ultimate parent company is Seawood Resources, Inc., a domestic company also engaged in investment activities.

The Parent Company's registered office address, which is also the principal place of business, is Unit 1206 East Tower, Philippine Stock Exchange Centre, Exchange Road, Ortigas Avenue, Pasig City. The Parent Company has a plant located in Brgy. Tumbler, General Santos City, Philippines.

**Subsidiaries**

The consolidated financial statements include the accounts of ASFII and the following subsidiaries (collectively referred herein as the "Group):

Name of Subsidiary	% of Ownership	Nature of Business	Principal Place of Business
Spence & Company Ltd. (Spence)	100	Salmon & other seafoods processing	USA
Big Glory Bay Salmon and Seafood Company, Inc. (BGB)	100	Salmon & other seafoods processing	Philippines
ASFI Thailand <sup>(b)</sup>	100	Sales office	Thailand
PT International Alliance Food Indonesia (PTIAFI)	99.98	Canned fish processing	Indonesia
Alliance MHI Properties, Inc. (AMHI)	98.89	Leasing	Philippines
Akaroa Salmon (NZ) Ltd. (Akaroa)	80	Salmon farming & processing	New Zealand
PT Van De Zee (PT VDZ) <sup>(a) (b)</sup>	49	Fishing	Indonesia
Prime Foods New Zealand Limited (PFNZ)	-	Salmon & other seafoods processing	New Zealand

(a) Indirect ownership interest through PTIAFI.

(b) No operations in 2017 and 2016.

*Spence.* Spence is based in Brockton, USA and specializes in the production of smoked salmon and other seafood products.

*PFNZ and BGB.* BGB is engaged in manufacturing, canning, processing, packing, repacking, and trading on wholesale goods such as salmon and other processed seafoods. It was registered with the Philippine SEC on October 29, 2009 and has a plant facility in Brgy. Tumbler, General Santos City.

PFNZ is a company registered and domiciled in New Zealand and is engaged in the processing, manufacturing and distributing smoked salmon and other seafoods under the Prime Smoke and Studholme brand for distribution in New Zealand and other countries.

On October 27, 2015, ASFII acquired 50,864,702 shares of BGB for \$1.37 million from PFNZ. The acquisition resulted to the increase in Parent Company ownership interest in BGB from 68% to 100%.

On October 30, 2015, ASFII sold its equity interest in PFNZ to HC & JW Studholme No. 2 Family Trust (see Note 6).

In 2016, the Company converted advances of \$2.57 million to capital stock of BGB.

*ASFI Thailand.* ASFI Thailand was established as a sales representative office. As at March 31, 2017 and December 31, 2016, ASFI Thailand has no operations.

*PTIAFI and PT VDZ.* PTIAFI was established under the Indonesian Foreign Capital Investment Law and is primarily engaged in canned fish processing exclusively for international market. The plant is located at JL Raya Madidir Kelurahan Madidir Unet Ling. II Kecamatan Madidir, Bitung Indonesia.

PTIAFI owns 49% of PT Van de Zee (PT VDZ), a fishing company. PT VDZ's operation is integrated with the tuna processing activities of PTIAFI. As at December 31, 2016, PT VDZ ceased operations.

Republic of Indonesia requires at least 51% domestic ownership in local entities engaged in mineral resources. As a result, in 2014, PTIAFI sold 31% of its ownership in PT VDZ decreasing its share to 49%. Management still considers PT VDZ as its subsidiary because the Company retained financial and operating control over PT VDZ.

*AMHI.* AMHI was incorporated in the Philippines and registered with the SEC on June 18, 2010 and engaged in the business as a property holding company.

On December 23, 2015, ASFII converted advances of \$0.29 million as partial payment of its subscription to 54,000,000 voting preferred shares of AMHI. The subscription resulted to the increase in Parent Company's effective voting interest in AMHI from 40% to 98.89% (see Note 4).

*Akaroa.* Akaroa, a company incorporated and domiciled in New Zealand, is engaged in sea cage salmon farming and operates two marine farms in Akaroa Harbor, South New Zealand. It also processes fresh and smoked salmon. Akaroa also holds 20% stake in Salmon Smolt NZ Ltd., an entity operating a modern hatchery, which quarantines and consistently supplies high quality smolts (juvenile salmon) for Akaroa's farm.

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## 2. Summary of Significant Accounting Policies

### **Basis of Preparation**

These consolidated financial statements have been prepared on a going concern basis and in accordance with Philippine Financial Reporting Standards (PFRS), issued by the Philippine Financial Reporting Standards Council (FRSC) and adopted by the SEC, including SEC pronouncements.

The consolidated financial statements comprise the statements of financial position, statements of comprehensive income, statements of changes in equity, 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 statements of changes in equity.

### **Measurement Bases**

The consolidated financial statements are presented in 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 of assets.

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 market observable 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 27 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 the following new and amended PFRS which the Group adopted effective for annual periods beginning on or after January 1, 2017:

- Amendments to PAS 7, *Statement of Cash Flows - Disclosure Initiative* – The amendments require entities to provide information that enable the users of financial statements to evaluate changes in liabilities arising from their financing activities.
- Amendments to PAS 12, *Income Taxes - Recognition of Deferred Tax Assets for Unrealized Losses* – The amendments clarify the accounting for deferred tax assets related to unrealized losses on debt instruments measured at fair value, to address diversity in practice.

The adoption of the foregoing new and amended PFRS did not have any material effect on the separate financial statements. Additional disclosures have been included in the notes to separate financial statements, as applicable.

## New and Amended PFRS Not Yet Adopted

Relevant new and amended PFRS which are not yet effective for the period ended May 31, 2017 and have not been applied in preparing the separate financial statements are summarized below.

Effective for annual periods beginning on or after January 1, 2018 -

- PFRS 9, *Financial Instruments* - This standard will replace PAS 39, *Financial Instruments: Recognition and Measurement* (and all the previous versions of PFRS 9). It provides requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and derecognition.

PFRS 9 requires all recognized financial assets to be subsequently measured at amortized cost or fair value (through profit or loss or through other comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics.

For financial liabilities, the most significant effect of PFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch.

For the impairment of financial assets, PFRS 9 introduces an “expected credit loss” model based on the concept of providing for expected losses at inception of a contract; it will be no longer necessary for objective evidence of impairment before a credit loss is recognized.

For hedge accounting, PFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and non-financial risk exposures.

The derecognition provisions are carried over almost unchanged from PAS 39.

Effective for annual periods beginning on or after January 1, 2019 -

- *PFRS 16, Leases* - This standard will replace PAS 17, *Leases*. It sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e., the customer (lessee) and the supplier (lessor). This standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset has a low value, and to recognize depreciation of lease assets separately from interest on lease liabilities in the statement of comprehensive income. Lessors continue to classify leases as operating or finance, and continue to account for those two types of leases differently.

Under prevailing circumstances, the adoption of the foregoing new and amended PFRS is not expected to have any material effect on the separate financial statements of the Group, except for PFRS 16. The management is currently in the process of evaluating the impact of PFRS 16. Additional disclosures will be included in the notes to separate financial statements, as applicable.

#### **Basis of Consolidation**

A subsidiary is an entity 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 re-assesses 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 statements 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 represent the portion of profit or loss and net assets not held by the Group, presented within equity in the consolidated statements of financial position, separately from equity attributable to equity holders of the Parent Company. Non-controlling interests represent the interests of minority shareholders of PTIAFI, PT VDZ, Akarua 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 acquisitions of Spence (\$7.45 million) in 2011 and Akaroa (\$2.05 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 this 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**

Financial assets and liabilities are accounted for as follows:

### a. Recognition

Financial assets and liabilities are recognized in the consolidated statements of financial position when the Group becomes a party to the contractual provisions of a financial instrument. Financial instruments are initially measured at fair value which includes transaction costs directly attributable to the acquisition (e.g. fees, commissions, transfer taxes, etc.). However, transaction costs related to the acquisition of financial instruments classified as fair value through profit or loss (FVPL) are recognized immediately in profit or loss. The Group uses trade date accounting to account for financial instruments.

*“Day 1” Difference.* The best evidence of the fair value of a financial instrument at initial recognition is its transaction price unless the transaction price differs from its fair value. The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the Group determines fair value by using a valuation technique whose variables include data from observable markets. The difference between the transaction price and the fair value (a “day 1” difference) is recognized in profit or loss, unless it qualifies for recognition as some other type of asset. In cases where the valuation model uses unobservable data, the difference between the transaction price and the model value is only recognized 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.

### b. Classification

The Group classifies its financial assets at initial recognition under the following categories: (a) financial assets at FVPL, (b) held-to-maturity (HTM) investments, (c) loans and receivables and (d) available-for-sale (AFS) financial assets. Financial liabilities, on the other hand, are classified as either financial liabilities at FVPL or other financial liabilities at amortized cost. The classification of a financial instrument largely depends on the Group’s intention at acquisition or issuance date.

As at September 30, 2017 and December 31, 2016, the Group does not have financial assets and liabilities classified at FVPL, HTM investments and AFS financial assets.

*Loans and Receivables.* Loans and receivables are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified or designated as AFS financial assets or financial asset at FVPL. Loans and receivables are included in current assets if maturity is within twelve months from reporting date. Otherwise, these are classified as noncurrent assets.

After initial measurement, loans and receivables are measured at amortized cost using the effective interest method, less allowance for impairment, if any. Amortized cost is calculated by taking into account any discount or premium on acquisition and any transaction costs which are directly attributable to the acquisition of the financial instrument. The amortization is included in profit or loss.

The Group has classified its cash and cash equivalents, trade and other receivables, due from related parties and deposits as loans and receivables.

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

*Other Financial Liabilities at Amortized Cost.* Financial liabilities are classified in this category if these are not held for trading or not designated as at FVPL upon the inception of the liability. These include liabilities arising from operations or through borrowing.

Other financial liabilities are initially recognized at fair value less any directly attributable transaction costs. After initial recognition, other financial liabilities are measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any related issue costs, discount or premium. Gains and losses are recognized in profit or loss when the liabilities are derecognized, as well as through amortization process.

The Group's trade and other payables (excluding customer's deposit and statutory payable), loans payable and due to a related party are classified under this category.

c. Impairment of Financial Assets

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is deemed impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be estimated reliably.

The Group first assesses whether objective evidence of impairment exists individually for its financial assets that are individually significant, and individually or collectively for its financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

The impairment loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. Impairment losses are recognized in full in profit or loss. Interest income continues to be recognized on the reduced carrying amount using the interest rate used to discount the future cash flows for the purpose of measuring the impairment loss.

If, in a subsequent year, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in profit or loss, to the extent that the resulting carrying amount will not exceed the amortized cost determined had no impairment loss been recognized in prior years.

d. Derecognition

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

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

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

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

e. Offsetting

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

**Inventories**

Inventories are initially measured at cost. Subsequently, inventories are stated at the lower of cost and net realizable value (NRV). The 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 statements 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 include prepayments, creditable withholding taxes (CWTs), value-added tax (VAT), biological assets, investments in associate and joint ventures, intangible assets and idle 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.

*Prepayments.* Prepayments are expenses paid in advance and recorded as assets before these are utilized. These are apportioned over the period covered by the payment and recognized in profit or loss when incurred.

*CWTs.* CWTs represent the amount withheld by the Group's customers in relation to its income. CWTs can be utilized as payment for income taxes provided that these are properly supported by certificates of creditable tax withheld at source.

*VAT.* Revenue, expenses and assets are recognized net of the amount of VAT. The net amount of VAT recoverable from the taxation authority is included as part of current assets in the consolidated statements of financial position.

*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. The Group uses the national average market values issued by the New Zealand Inland Revenue Department as a proxy for fair value of a class of livestock, provided that such values are applied consistent to a class of livestock. 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 12-18 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 statements of comprehensive income for the period when they arise.

*Investments in Associates 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.

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

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

Under the equity method, the investment in an associate or a joint venture is initially recognized at cost. The carrying amount of the investment 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 investment and is neither amortized nor individually tested for impairment.

Upon loss of significant influence over an 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.

*Idle Assets.* Idle assets are those which are no longer used in the Group's operations. 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 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:

	Number of Years
Building	25
Leasehold improvements	5 (or lease term, whichever is shorter)
Machinery and equipment	15
Transportation equipment	5
Plant and office furniture, fixtures and equipment	5
Fishing vessels	40

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 represents properties under construction and is stated at cost, including cost of construction and other direct costs. Borrowing costs that are directly attributable to the construction of property and equipment are capitalized during the construction period. Construction in progress 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 statements 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 Assets with Indefinite Useful Lives.* Macrocyctic consent 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 macrocyctic consent having an indefinite useful life for the following reasons:

- there have 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 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.* The Group assesses goodwill for impairment annually and when circumstances indicate that the carrying amount may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating units, to which the goodwill relates.

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



### **Customer's Deposit**

Customer's deposit consists of amounts received by the Group from its customers as advance payments for the sale of goods. These are recorded at face amount in the consolidated 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.

### **Capital Stock**

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 additional paid-in capital or retained earnings. Proceeds or fair value of consideration received in excess of par value are recognized as additional paid-in capital.

### **Deficit**

Deficit represents the cumulative balance of net loss, net of dividend declaration. Deficit may also include effect of changes in accounting policy as may be required by the standard's transitional provision.

### **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 statements 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 additional paid-in capital. Voting rights related to treasury shares are nullified for the Group and no dividends are allocated to them.

### **Revenue Recognition**

Revenue is recognized when it is probable that the economic benefits associated with the transactions will flow to the Group and the amount of revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts and returns. The Group has concluded that it is the principal in all of its revenue arrangements. Revenue is recognized as follows:

*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.

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

*Interest Income.* Interest income is recognized in profit or loss using the effective interest method.

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

### **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 cost of administering the business. Both are expensed as incurred.

*Interest Expense.* Interest expense is recognized in profit or loss using the effective interest method.

### **Borrowing Costs**

Borrowing costs are generally expensed as incurred. Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. Capitalization of borrowing cost commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use.

### **Leases**

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date. This requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and whether 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:

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

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

*Group as Lessee.* 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.

*Group as Lessor.* 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 income in profit or loss on a straight-line basis over the lease term.

### **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 calculation of defined benefit obligations is performed annually by a qualified actuary.

The Group recognizes service costs comprising of current service costs, past service costs, gain or loss on curtailment and settlements and net interest expense on the retirement benefit liability in profit or loss.

The Group determines the net interest expense on retirement benefit liability by applying the discount rate to the net retirement benefit 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 benefit 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 (OCI) and are not reclassified to profit or loss in subsequent periods.

The net retirement benefit 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 benefit 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 is the expected tax payable on the taxable income for the year, using tax rate enacted or substantively enacted at the 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 NOLCO and 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.

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

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

### **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 US Dollar are translated to US 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 recognised 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 United States 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 recognised 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 derecognised, but they are not reclassified to profit or loss.

#### **Related Party Relationships and Related Party Transactions**

Related party relationships exist when one party has the ability to control, directly or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting enterprise, or between and/or among the reporting enterprises and their key management personnel, directors, or its stockholders.

A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, 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 Date**

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.

### Loss per Share

The Group presents basic and diluted loss per share data for its common shares.

Basic loss per share is calculated by dividing the net 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 products/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.

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

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 outcome that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

The 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 estimates and judgments and the related impact and associated risks in the consolidated financial statements:

*Assessing Going Concern.* The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on a going concern basis.

*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.

*Assessing Acquisition of a Business.* The Parent Company acquired a subsidiary which owns real estate. At the time of acquisition, the Parent Company considers whether the acquisition represents an acquisition of a business or a group of assets. An entity accounts for an acquisition as a business combination if it acquires an integrated set of business processes in addition to its current business. The consideration is made to the extent that the significant business processes are acquired and the additional services to be provided by the subsidiary.

Management has assessed that the acquisition of AMHI in 2015 constitutes a business.

*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. Management has determined that by virtue of its majority ownership of voting rights in its subsidiaries as at December 31, 2016 and 2015, 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.

*Accounting for Interest in a Joint Operation.* The Group has, after considering the structure and form of the contractual arrangement, the terms agreed by the parties and the Group's rights and obligations classified its interest in a joint arrangement with FDCP, Inc. (FDCP) and Wild Catch Fisheries, Inc. (WCFI) as a joint venture under PFRS 11. As a consequence, the Group accounts for the assets, liabilities, revenues and expenses relating to its interest in the joint operation only to the extent of the Group's interest in the joint venture.

*Classifying Leases - Group as a Lessee.* The Group has an operating lease agreement for its office site. The Group has determined that the risks and rewards of ownership related to the leased property are retained by the lessor. Accordingly, the agreement is accounted for as an operating lease.

*Classifying Leases - Group as Lessor.* The Group has entered into lease agreement on its parcel of land. The Group has determined that it retains all the significant risks and rewards of ownership of these properties. Accordingly, these leases are accounted for as operating leases.

*Estimating Impairment Losses on Financial Assets.* The Group maintains allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, significant financial difficulties or bankruptcy, the length of the Group's relationship with the customer, the customer payment behavior, and known market factors. The Group identifies and provides for specific accounts that are doubtful of collection and reviews the age and status of the remaining receivables and establishes a provision considering, among others, historical collection and write-off experience.

*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 of 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.

*Estimating Useful Lives of Property, Plant and Equipment and Other Intangible Assets.* The Group estimates the useful lives of property, plant and equipment and other 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 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 expense for any period would be affected by changes in these factors and circumstances.

*Assessing Impairment of Nonfinancial Assets and Goodwill.* The Group assesses impairment on its nonfinancial assets (excluding goodwill) 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 is tested for impairment annually and more frequently, when circumstances indicate that the carrying amount may be impaired.

*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 16 to the consolidated financial statements and include, among others, discount rates and salary increase rates.

*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.

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#### 4. Business Combinations

On December 23, 2015, the Parent Company converted advances of \$0.29 million (€13.5 million) as partial payment of its subscription to 54,000,000 voting preferred shares of AMHI. The subscription resulted to the increase in the Parent Company's effective voting ownership interest in AMHI to 98.89%. Prior to December 23, 2015, the Parent Company had 40% ownership interest in AMHI. The fair values of the identified assets and liabilities of AMHI at the time of acquisition and the purchase price allocation are as follows:

	Amount
Cash in banks	\$2,553
Due from related parties	170,279
Other current assets	85,568
Property and equipment	8,748,405
Deferred tax assets	59,415
Due to related parties	(453,137)
Refundable lease deposits	(1,877,828)
Loan payable (forward)	(323,326)
Deferred tax liabilities	(32,875)
Net assets	6,379,054
Percentage share of net assets acquired	98.89%
Net assets acquired	6,308,884
Gain from acquisition	(3,471,040)
Gain on remeasurement of previously held interest	(2,356,202)
Total consideration	\$481,642
<hr/>	
Total consideration	\$481,642
Less cash acquired	2,553
Acquisition of subsidiary, net of cash acquired	\$479,089

Gains from acquisition and remeasurement of previously held interest resulted from the increase in fair value of the land held by AMHI. The fair value of previously held interest by the acquirer immediately before the acquisition date was \$2.55 million.

Non-controlling interest is measured based on its proportionate share on the net assets of AMHI at acquisition date.

The revenue and the net income of AMHI from the date the Parent Company obtained control, which is December 23, 2015, to December 31, 2015 were no longer included in the consolidated financial statements because these were not considered significant. The assets and liabilities of AMHI as at December 31, 2015 were included in the 2015 consolidated financial statements.

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#### 5. Goodwill

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

*Spence*. The Parent Company acquired 100% ownership of *Spence* in 2011. The acquisition of *Spence's* salmon processing facilities in Brockton, USA allows the Group to diversify its product line to take advantage of the changing food consumption patterns around the globe, address the issue



of sourcing raw materials and improve overall margins and profitability. The goodwill arising from the acquisition amounted to \$7.45 million.

*Akaroa.* The Parent Company acquired 80% ownership of Akaroa in 2012. Akaroa is engaged in the business of sea cage salmon farming and operates two marine farms in New Zealand. It also processes fresh and smoked salmon. Akaroa also holds 20% stake in Salmon Smolt NZ Ltd., an entity operating a modern hatchery, which quarantines and consistently supplies high quality smolts (juvenile salmon) for Akaroa's farm. The acquisition enables the Group to stabilize its supply of salmon and eventually strengthen its market share in the salmon industry. The goodwill arising from the acquisition amounted to \$2.05 million.

## 6. Disposal of Investments

### **PFNZ**

On October 30, 2015, ASFI sold its 50% plus one share interest in PFNZ to HC & JW Studholme No. 2 Family Trust for \$5,000. The sale resulted in a gain of \$0.37 million in the 2015 consolidated statement of comprehensive income (see Note 21).

The carrying amounts of the assets and liabilities of PFNZ as at October 30, 2015, which have been excluded in the 2015 consolidated financial statements, are as follows:

	Amount
Cash and cash equivalents	\$100,004
Trade and other receivables	230,815
Due from related parties	14,135
Inventories	629,681
Property and equipment	1,010,268
<b>Total assets</b>	<b>1,984,903</b>
Trade and other payables	169,457
Income tax payable	201,937
Notes payable	2,346,283
<b>Total liabilities</b>	<b>2,717,677</b>
Deficit	(732,774)
Non-controlling interests	(366,494)
<b>Net liabilities sold</b>	<b>(\$366,280)</b>

Gain on disposal of a subsidiary was computed as follows:

	Amount
Fair value of consideration received	\$5,000
Carrying amount of net liabilities sold	(366,280)
<b>Gain on disposal</b>	<b>\$371,280</b>

The 2015 consolidated statement of comprehensive income includes revenue of \$3.26 million and net loss of \$0.57 million of PFNZ for the ten months ended October 30, 2015 (revenue and net loss of \$7.49 million and \$0.74 million, respectively, for the year ended December 31, 2014).

## 7. Cash and Cash Equivalents

This account consists of:

	2017	2016
Cash on hand	\$4,425	\$4,621
Cash in banks	2,726,858	3,710,241
Cash equivalents	–	3,681,481
	<b>\$2,731,283</b>	<b>\$7,396,343</b>

Cash in banks earn interest at prevailing bank deposit rates.

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

Interest income included in the consolidated statements of comprehensive income is summarized below (see Note 21):

	Note	2017	2016
Cash and cash equivalents	21	\$66,286	\$73,748
Accretion of lease deposits		28,229	–
		<b>\$94,515</b>	<b>\$73,748</b>

## 8. Trade and Other Receivables

This account consists of:

	Note	2017	2016
Trade		\$12,546,047	\$6,036,147
Claims receivables		1,360,011	1,630,864
Due from related parties	15	299,145	244,025
Receivable from PFNZ- current portion	12	161,000	177,500
Advances to employees		35,430	20,436
Others		383,848	615,407
		<b>14,785,481</b>	<b>8,724,379</b>
Allowance for impairment losses		1,950,270	1,999,471
		<b>\$12,835,211</b>	<b>\$6,724,908</b>

Trade receivables are generated from the sale of inventories and are generally collectible within 29 to 60 days.

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

Movements in the allowance for impairment losses are as follows:

	Note	2017	2016
Balance at beginning of year		\$1,999,471	\$1,889,186
Provisions		–	79,049
Write-off		–	–
Currency translation adjustment		(49,201)	31,236
Balance at end of year		\$1,950,270	\$1,999,471

## 9. Inventories

This account consists of:

	Note	2017	2016
At cost:			
Finished goods	19	\$496,054	\$400,224
Parts and supplies		284,856	346,966
Work-in-process		284,972	266,681
		<b>1,065,882</b>	<b>1,013,871</b>
At NRV:			
Raw and packaging materials		8,705,145	3,710,256
Finished goods		3,106,453	3,229,638
		<b>11,811,598</b>	<b>6,939,894</b>
		<b>\$12,877,480</b>	<b>\$7,953,765</b>

The costs of inventories measured at NRV are as follows:

	Note	2017	2016
Finished goods	19	\$4,262,249	\$5,087,643
Raw and packaging materials		9,317,806	4,359,079
Parts and supplies		32,706	32,706
		<b>\$13,612,761</b>	<b>\$9,479,428</b>

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

	Note	2017	2016
Balance at beginning of year		\$2,539,534	\$4,589,905
Provisions	20	242,384	794,010
Reversal/Write-off		(980,755)	(2,844,381)
Balance at end of year		\$1,801,163	\$2,539,534

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

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## 10. Other Current Assets

This account consists of:

	2017	2016
Deposits	\$65,880	547,095
Input VAT	670,992	\$539,233
Prepayments:		
Taxes	138,246	172,433
Rent	21,087	24,583
Insurance	14,021	51,423
Others	42,147	195,428
	<u>\$952,373</u>	<u>\$1,530,195</u>

Deposits represent advance payments to suppliers of raw materials.

Other prepayments pertain to dues and subscriptions, membership fees and travel advances.

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## 11. Property, Plant and Equipment

Property, plant and equipment had total addition of \$563,885 aggregate additions as of third quarter of 2017.

The Group has mortgaged its property, plant and equipment for long-term loans. The carrying value of mortgaged property amounted to \$69,528 as at September 30, 2017 (\$70,082 as at December 31, 2016).

The Group did not provided for impairment loss in 2017 and 2016 (\$8.55 million in 2015), on its property, plant and equipment. Allowance for impairment loss amounted to \$0.61 million as at December 31, 2016 (\$14.22 million as at December 31, 2015).

In 2016, the carrying amount of fishing vessels amounting to \$0.31 million was reclassified to "Other noncurrent assets" as these are no longer used in operations.

In 2015, the Parent Company recovered two of the fishing vessels it previously sold to WCFI because of losses sustained by WCFI. The receivable from the sale of three fishing vessels of \$6.38 million in 2013 was provided with an allowance for impairment loss of \$6.28 million in 2014. When the Parent Company recovered the two vessels at a carrying amount of \$5.91 million, it reversed allowance for impairment (recovery) of \$5.82 million in 2015 but recognized a provision for impairment loss on the fishing vessels at the same amount in the same year. Effectively, the Parent Company did not recognize any gain or loss from this transaction in the 2015 consolidated financial statements.

## 12. Other Noncurrent Assets

This account consists of:

	Note	2017	2016
Receivable from WCFI		\$2,183,859	\$2,182,863
Receivable from PFNZ- net of current portion		1,068,019	1,068,019
Investments in joint ventures		553,480	553,480
Other intangible assets		199,218	174,695
Investments in associates		92,252	92,252
Idle assets		314,320	314,320
Others		298,675	252,442
		<b>4,709,823</b>	4,638,071
Less allowance for impairment losses		<b>3,190,832</b>	3,164,942
		<b>\$1,518,991</b>	\$1,473,129

### Receivable from WCFI

Receivable from WCFI includes receivable from the sale of three fishing vessels and advances for fish deposit. These were provided with allowance for impairment losses of \$8.00 million in 2014 because of losses sustained by WCFI. WCFI ceased operations in the same year.

In 2013, the Parent Company sold three fishing vessels with an aggregate carrying amount of \$6.30 million to WCFI for a total consideration of \$6.38 million, resulting in a gain of \$71,497. In 2015, the Parent Company reversed the receivable of \$5.82 million from WCFI when the Parent Company recovered two of the vessels (see Note 11). Accordingly, the related allowance for impairment losses of \$5.82 million was also reversed.

### Receivable from PFNZ

As discussed in Note 1 and Note 6, the accounts of PFNZ were excluded from the consolidated financial statements in 2015 when ASFII sold its ownership interest. In the same year, BGB entered into a debt restructuring agreement with PFNZ, which resulted to the following:

- Trade payable of \$0.46 million to PFNZ was offset against the receivable of \$2.77 million from PFNZ as at October 30, 2015;
- The payment terms were modified from payable on demand to payable in monthly installments commencing in January 2016 and ending in September 2029;
- The restructured receivable shall be secured by PFNZ's tangible and intellectual properties; and
- Interest expense incurred and charged to operations amounted to \$0.40 million in 2015.

### Investment in Joint Ventures

Details are as follows:

	2017	2016
At cost:		
FDCP, Inc. (FDCP)	\$240,964	\$240,964
WCFI	39,279	39,279
	<b>280,243</b>	280,243
Accumulated equity in net earnings:		
Balance at beginning of year	\$360,189	\$360,189
Share in net losses for the year	–	–
Balance at end of year	<b>\$360,189</b>	\$360,189
Share in other comprehensive income:		
Balance at beginning of year	(\$86,952)	(\$86,952)
Share in net losses for the year	–	–
Balance at end of year	<b>(\$86,952)</b>	(\$86,952)
Total	<b>553,480</b>	553,480
Allowance for impairment loss:		
Balance at beginning of year	(553,480)	(553,480)
Provision	–	–
Balance at end of year	<b>(553,480)</b>	(553,480)
	<b>\$–</b>	\$–

*FDCP.* FDCP is engaged in manufacturing and wholesale of tin cans. The Group has 40% ownership interest in FDCP. FDCP ceased manufacturing operations effective September 2015. The Group provided for impairment loss of \$0.24 million in 2015 on its investment in FDCP. FDCP has no available financial information as at and for the year ended December 31, 2016 and no additional share in net earnings (losses) was recognized by the Group in 2016.

In November 2016, SEC approved the issuance of additional 7,500,000 common shares at ₱1 par value a share. The Parent Company did not subscribe to the said additional issuance resulting to the decrease of the Parent Company's ownership from 40% to 25%. Based on management's assessment, the Group retains joint control 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 WCFI. WCFI ceased operation effective December 31, 2014. The Group provided for impairment loss of \$39,279 in 2014 on its investment in WCFI.

The Group's unrecognized share in losses of WCFI as at December 31, 2014 amounted to \$0.87 million.

### Investments in an Associate

The Group has 16% ownership interest in Salmon Smolt New Zealand Limited (SSNZ) through Akaroa. SSNZ is engaged in the farming of salmon in South Island of New Zealand and was incorporated in 2008.

Details of the investments are as follows:

	2017	2016
Acquisition cost	<b>\$27,319</b>	\$27,319
Accumulated equity in profits:		
Balance at beginning of year	<b>64,933</b>	45,162
Equity in net income for the year	–	19,771
Balance at end of year	<b>64,933</b>	64,933
	<b>\$92,252</b>	\$92,252

#### **Other Intangible Assets**

Other intangible assets pertain to salmon farming consent and fishing license. Movements in this account are as follows:

	Note	2017	2016
<b>Cost</b>		<b>\$269,066</b>	\$269,066
<b>Accumulated Amortization</b>			
Balance at beginning of year		<b>94,371</b>	90,100
Amortization		<b>3,833</b>	6,980
Translation adjustment		<b>(28,356)</b>	(2,709)
Balance at end of year		<b>69,848</b>	94,371
		<b>199,218</b>	174,695
<b>Allowance for Impairment</b>			
Balance at beginning of year		<b>114,279</b>	114,279
Provisions		<b>25,890</b>	–
Balance at end of year		<b>140,169</b>	114,279
		<b>\$59,049</b>	\$60,416

#### **Idle Assets**

Idle assets pertain to fishing vessels reclassified to noncurrent assets as they are no longer used in the Group's operations. In 2016, provision for impairment loss amounting to \$314,320 was recognized, based on management's estimate of the recoverable amount.

#### **Others**

Others include biological assets of the Group, which comprised solely of consumable female smolts. The biological assets amounted to \$0.30 million and \$0.25 million as at September 30, 2017 and December 31, 2016.

### Allowance for Impairment Losses

This account consists of:

	Note	2017	2016
Receivable from WCFI		\$2,182,863	\$2,182,863
Investments in joint ventures		553,480	553,480
Idle assets	11	314,320	314,320
Other intangible assets		140,169	114,279
		<u>\$3,190,832</u>	<u>\$3,164,942</u>

Movements in this account are as follows:

	Note	2017	2016
Balance at beginning of year		\$3,164,942	\$2,850,622
Provisions		25,890	314,320
Reversal		-	-
Balance at end of year		<u>\$3,190,832</u>	<u>\$3,164,942</u>

### **13. Trade and Other Payables**

This account consists of:

	Note	2017	2016
Trade payables:			
Third parties		\$9,237,268	\$3,598,283
Related party	15	260,957	260,957
Accrued expenses:			
Salaries, wages and other benefits		523,714	582,290
Professional fees		238,664	394,315
Freight		27,413	125,925
Interest		167,234	90,595
Others		880,571	679,165
Customer's deposit		372,381	195,398
Statutory payable		234,233	69,430
Others		36,861	73,900
		<u>\$11,979,296</u>	<u>\$6,070,258</u>

Trade payables are non-interest bearing and are generally settled within one year.

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.



#### 14. Loans Payable

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

##### Short-term Loans

	Currency	Nominal interest rate	2017	2016
Local banks	USD	2.50% - 4.80%	\$14,124,267	\$12,522,343
	PHP	4.00% - 5.80%	–	2,500,000
Foreign banks	USD	4.80% - 10.00%	69,677	–
Investment banks	PHP	4.80% - 5.00%	3,010,922	3,077,233
	USD	4.25% - 4.60%	2,700,000	2,700,000
			19,904,866	20,799,576
Add current portion of long-term loans			9,072	30,607
			<b>\$19,913,938</b>	<b>\$20,830,183</b>

Loans from local and foreign banks aggregating \$14.12 million as at September 30, 2017 (\$15.02 million as at December 31, 2016) represent availment of revolving facilities, export packing credit, export bills purchase, import letters of credit and trust receipts. Loans from investment banks are unsecured promissory notes used to finance the Group's working capital requirements.

##### Long-term Loans - Net of Current Portion

	Currency	Nominal interest rate	2017	2016
Local banks	PHP	4.31% - 5.50%	\$53,880	\$11,772
	USD	4.31% - 5.35%	–	39,892
Foreign financing corporation	NZD	9.90%	69,677	33,389
			123,557	85,053
Less current portion			9,072	30,607
			<b>\$114,485</b>	<b>\$54,446</b>

*Loan Security.* As at September 30, 2017, loans amounting to \$53,880 are secured by a chattel mortgage on property, plant and equipment with carrying amount of \$69,528.

## 15. Related Party Transactions

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

Related Party	Note	Amount of Transaction		Outstanding Balance	
		2017	2016	2017	2016
<b>Trade and other receivables</b>					
<i>Joint Venture</i>					
FDCP			\$306,398	\$287,712	\$240,518
<i>Associate</i>					
SSNZ			-	\$11,433	\$3,507
		\$-	\$306,398	\$299,145	\$244,025
<i>Joint Venture</i>					
FDCP		\$-	\$-	\$260,957	\$260,957
<b>Due to a related party</b>					
<i>Subsidiary Stockholder</i>					
Duncan Bates		\$-	\$-	\$141,153	\$136,112
<i>Parent Stockholder</i>					
Strongoak Inc.		-	-	-	-
		\$-	\$-	\$141,153	\$136,112

### Nature and Terms of Payment

*Working Capital Advances.* The Parent Company and its subsidiaries make advances to and from its related parties for working capital requirements. The receivable from SSNZ and the payable to Duncan Bates are working capital advances that are payable on demand. Payable to Duncan Bates bears an interest of 7% per annum.

*Other Noncurrent Assets.* As discussed in Note 12, this receivable resulted from the sale of fishing vessels by the Parent Company.

*Trade Receivable and Trade Payable.* The Parent Company purchased some of its can requirements from FDCP. These trade accounts which resulted from these transactions are non-interest bearing and are normally settled within a year.

## 16. Net Retirement Benefit Obligation

The Group 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 sixty years old and with at least five years of continuous service.

The Group has executed a Trust Agreement with a reputable bank to establishing the Group's Retirement Plan.

## 17. Equity

### Capital Stock

This account consists of:

	2017		2016	
	Shares	Amount	Shares	Amount
<b>Authorized</b>				
Ordinary shares at ₱1 par value				
Balance at beginning of year	3,000,000,000	₱3,000,000,000	3,000,000,000	₱3,000,000,000
Increase	-	-	-	-
Balance at end of year	3,000,000,000	₱3,000,000,000	3,000,000,000	₱3,000,000,000
<b>Issued and Outstanding</b>				
Balance at beginning of year	2,500,000,000	\$53,646,778	2,500,000,000	\$53,646,778
Additional issuance	-	-	-	-
Total issued and fully paid	2,500,000,000	53,646,778	2,500,000,000	53,646,778
<b>Treasury Stock</b>	<b>(287,537)</b>	<b>(5,774)</b>	<b>(287,537)</b>	<b>(5,774)</b>
Balance at end of year	2,499,712,463	\$53,641,004	2,499,712,463	\$53,641,004

The history of shares issuances from initial public offering of the Parent Company is as follows:

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

On May 5, 2014, the Parent Company's BOD approved the issuance of 430,286,226 shares to Strongoak Inc. in a private placement for a 28.7% share of the Parent Company's total outstanding shares. The subscription price was ₱1.31 a share at a 33% premium on the 30-day weighted average price for the period. The issuance of the shares resulted in an increase in share capital and additional paid-in capital amounting to \$9,662,622 and \$2,947,111, respectively.

On February 17, 2015, the BOD approved the increase in the Parent Company's authorized capital stock from ₱1.50 billion divided into 1.50 billion shares to ₱3.00 billion divided into 3.0 billion shares at ₱1 par value a share. The same resolution was approved by the stockholders on March 31, 2015. The increase in authorized capital stock was approved by the SEC on October 28, 2015.

In the same meeting, the BOD also approved the stock rights offering of up to 1.0 billion shares at ₱1 par value a share by way of pre-emptive rights offering to eligible existing common shareholders of the Parent Company at the proportion of 1 rights offer for every one and ½ existing common shares held as of the record date.

Strongoak Inc. acquired 952,479,638 shares of the Parent Company at par value arising from the increase in authorized capital stock and stock rights offering by way of pre-emptive rights, such increase was approved by the SEC on October 28, 2015. This resulted in Strongoak Inc. owning a total of 1,382,765,864 shares, representing 55.32% of the total issued and outstanding shares of the Parent Company.

As at September 30, 2017 and December 31, 2016, additional paid-in capital amounted to \$6.66 million.

## 18. Net Sales

This account consists of:

	2017	2016
Sales	<b>\$53,171,127</b>	\$45,783,105
Less:		
Sales returns	-	2,055
Sales discounts	<b>10,232</b>	17,171
	<b>\$53,160,895</b>	\$45,763,879

## 19. Cost of Goods Sold

This account consists of:

	Note	2017	2016
Materials used		<b>\$36,719,775</b>	\$33,307,359
Direct labor		<b>4,577,683</b>	4,526,442
Manufacturing overhead:			
Depreciation and amortization		<b>759,967</b>	692,744
Fuel		<b>578,964</b>	482,198
Light and water		<b>523,136</b>	430,146
Rental		<b>278,793</b>	319,498
Others		<b>2,493,527</b>	3,776,060
Total manufacturing costs		<b>45,931,845</b>	43,534,447
Finished goods, beginning	9	<b>5,487,867</b>	6,415,166
Total cost of goods manufactured		<b>51,419,712</b>	49,949,613
Finished goods, ending	9	<b>4,758,303</b>	6,675,221
		<b>\$46,661,409</b>	\$43,274,392

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

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**20. Selling and Administrative Expenses**

This account consists of:

	2017	2016
Salaries, wages and other short-term benefits	\$1,771,804	\$2,036,248
Freight and handling	784,922	575,634
Outside services	614,722	344,773
Taxes and licenses	454,057	202,066
Provision for impairment losses on inventory	242,384	-
Transportation and travel	229,465	266,930
Insurance	125,961	166,185
Representation and entertainment	115,758	114,297
Rental	111,590	52,257
Depreciation and amortization	90,203	64,225
Materials and supplies	75,549	63,274
Utilities and communication	74,394	89,720
Advertising and marketing	66,420	129,092
Retirement benefit	64,511	68,598
Commission	45,448	55,757
Membership dues	31,510	32,554
Repairs and maintenance	25,145	28,140
Business development expense	21,104	60,860
Other personnel expenses	20,496	79,683
Fuel and oil	18,774	36,165
Provision for impairment on trade and other receivables	9,835	-
Fringe benefit tax	3,448	4,306
Others	314,800	327,400
	<b>\$5,312,300</b>	<b>\$4,798,164</b>

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**21. Other Income (Charges)**

This account consists of:

	2017	2016
Foreign exchange gain (loss)	\$155,338	\$83,529
Interest income	94,515	73,748
Gain on sale of PPE	58,618	23,619
Bank Charges	(109,883)	(81,776)
Others	95,203	291,102
	<b>\$293,791</b>	<b>\$390,222</b>

Others consist of duty benefit and miscellaneous items.

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## 22. Employee Benefits

This account consists of:

	2017	2016
Short-term employee benefits	\$6,812,881	\$6,920,144
Post-employment benefits	64,511	68,598
	<u>\$6,877,392</u>	<u>\$6,988,742</u>

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## 23. Earnings Per Share

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

	2017	2016
Income for the year	\$414,327	(\$2,262,444)
Weighted average number of ordinary shares outstanding	2,499,712,463	2,499,712,463
	<u>\$0.00017</u>	<u>(\$0.0009)</u>

As at September 30, 2017 (and 2016), the Parent Company has no dilutive potential share; hence, the basic loss per share is equal to the diluted earnings per share.

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## 24. Significant Agreements

### Operating Lease Agreements

A number of operating lease agreements were entered into by the Group.

#### *The Group as Lessee*

*Operating lease agreement with Dominion Property Holdings, Inc.* The Parent Company leases its head office space from Dominion Property Holdings, Inc. with a monthly rental of \$3,688 for a period of three years, commencing on August 16, 2016 to August 15, 2018 renewable by mutual agreement by both parties.

*Operating lease agreement with Piadi Multipurpose Cooperative.* BGB has a one-year lease agreement with Piadi Multipurpose Cooperative for the lease of the warehouse building expiring on August 31, 2016. The lease agreement provides the following:

- a. The said lease is renewable at the sole option of the lessor provided that the lessee shall occupy the premises on a month-to-month basis.
- b. Fixed monthly rent in the amount of \$426 plus 12% VAT or a total of \$477.

*Operating lease agreement with New Zealand Guardian Trust Company Limited.* Akaroa entered into a lease agreement with New Zealand Guardian Trust Company Limited for premises located at 6 Pope Street, with an annual rental payment of \$43,291 for 15 years beginning June 1, 2012 until May 30, 2027. The agreement has four renewable dates being December 1, 2014, June 1, 2017, June 1, 2022 and December 1, 2024.

*Operating lease agreement with a former shareholder.* Spence leases its office and manufacturing space from an entity that is controlled by its former shareholder under an operating lease that expires May 31, 2020. Per the lease agreement, after five years the yearly rent amount is to be adjusted to fair market value. During 2016, Spence reached an agreement with the lessor on a new yearly rent amount of \$91,000, payable each month in the amount of \$7,583, plus an amount to cover its portion of taxes and operating costs. The agreed-upon rent amount was retroactively applied to rent paid starting in August of 2015, resulting in excess rent paid. The excess rent is due in one lump sum payment from the lessor. At December 31, 2016, \$110,702 was included in other current assets as the amount due from the lessor.

*The Group as Lessor*

*Operating lease agreement between AMHI and FDCP.* AMHI has an existing lease agreement with FDCP covering a parcel of land. The lease agreement will expire in 2017 and renewable as may be agreed by both parties. The rental payments are subject to annual escalation of 5% or the national inflation rate as published by the National Statistics Office, whichever is higher. Rental receivable of AMHI is included in the "Due from related parties" under "Trade and other receivable."

**25. Corporate Social Responsibility**

For the past eight (8) years, the Group accommodated the feeding program of the Banisil High School in General Santos City. Guided by the principle of "Feeding the stomach, feeding the mind" students from ages 12 to 14 that were identified to be severely below the average Body Mass Index were fed daily throughout the year with meals that would give complete nutrition to complement their mental development. Part of the goal is to educate families about health and nutrition, so that they could sustain the progress children have made every school year.

**26. Income Taxes**

Components of income tax expense (benefit) charged to profit or loss is as follows:

	2017	2016
Current	\$463,213	(\$349,107)
	\$463,213	(\$349,107)

## 27. 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 September 30, 2017 and December 31, 2016.

	2017		2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial Assets</b>				
Loans and receivables:				
Cash and cash equivalents	\$2,731,283	\$2,731,283	\$7,396,343	\$7,396,343
Trade and other receivables	12,835,211	12,835,211	6,724,908	6,724,908
Receivable from PFNZ*	1,068,019	1,068,019	1,068,019	1,275,327
	<b>\$16,634,513</b>	<b>\$16,634,513</b>	<b>\$15,189,270</b>	<b>\$15,396,578</b>

\*Under other noncurrent assets

	2017		2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial Liabilities</b>				
Trade and other payables*	\$11,214,332	\$11,214,332	\$5,805,430	\$5,805,430
Loans payable	20,028,423	20,035,438	20,884,629	21,116,861
Due to a related party	141,153	141,153	136,112	136,112
Refundable lease deposit	70,364	70,364	92,395	92,395
	<b>\$31,454,272</b>	<b>\$31,461,287</b>	<b>\$26,918,566</b>	<b>\$27,150,798</b>

\* Excluding statutory payable and customer deposits

The difference between the carrying amount of trade and other payables disclosed in the consolidated statements of financial position and the amount disclosed in this note pertains to government payables that are not considered as financial liabilities.

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

The fair value of the receivable from PFNZ and loans payable is determined based on the discounted cash flow analysis using effective interest rates for similar types of instruments. There were no significant unobservable inputs identified and no relationship was established between the unobservable inputs and the fair value of the loans payable and refundable lease deposits. These financial instruments are classified under Level 3 of the fair value hierarchy groups of the consolidated financial statements. The fair value of the refundable lease deposits is based on the amount that the Group could be required to repay immediately.

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 2017 and 2016.



## 28. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise mainly of cash and cash equivalents, trade and other receivables, due from related parties, refundable lease deposits, trade and other payables (excluding statutory payable), loans payable and due to related parties. The main purpose of these financial instruments is to finance the Group's operations.

The main risks arising from the Group's financial instruments are credit risk, interest rate risk, liquidity risk and foreign currency risk. The 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 the counterparty fails to fulfill its obligations to the Group. Counterparty such as banks and customer who pay on or before due date have minimum risk exposure since default in settling its obligations is remote. The Group deals only with reputable banks and customer to limit this risk.

The table below shows the gross maximum exposure to credit risk for the components of the Group's consolidated statements of financial position before taking into consideration collateral and other credit enhancements:

	2017	2016
Cash in banks and cash equivalents	\$1,426,625	\$7,391,722
Trade and other receivables	10,663,524	8,724,379
Receivable from PFNZ*	1,068,019	1,068,019
	<b>\$13,158,168</b>	<b>\$17,184,120</b>

\*Under other noncurrent assets

As at September 30, 2017 and December 31, 2016, the aging analysis of the Group's financial assets is as follows:

	2017					Total
	Neither Past Due nor Impaired	Past Due Account but not Impaired			Impaired Financial Assets	
		1 - 30 Days Past Due	31 - 60 Days Past Due	Over 60 Days		
Cash in banks	\$2,731,283	\$-	\$-	\$-	\$-	\$2,731,283
Cash equivalents	-	-	-	-	-	-
Trade and other receivables	14,785,481	-	-	-	1,950,270	12,835,221
Receivable from PFNZ*	1,068,019	-	-	-	-	1,068,019
	<b>\$18,584,783</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>	<b>\$1,950,270</b>	<b>\$16,184,523</b>

	2016						Total
	Neither Past Due nor Impaired	Past Due Account but not Impaired			Impaired Financial Assets		
		1 - 30 Days Past Due	31 - 60 Days Past Due	Over 60 Days			
Cash in banks	\$3,710,241	\$-	\$-	\$-	\$-	\$3,710,241	
Cash equivalents	3,681,481	-	-	-	-	3,681,481	
Trade and other receivables	8,724,379	-	-	-	1,999,471	6,724,908	
Receivable from PFNZ*	1,068,019	-	-	-	-	1,068,019	
	\$17,184,120	\$-	\$-	\$-	\$1,999,471	\$15,184,649	

As at September 30, 2017 and December 31, 2016, the carrying amounts of financial assets that are neither past due nor impaired are rated as High 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.

#### **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 14.

The Group has no established policy on managing interest risk. Management believes that any variation in the interest will not have a material impact on the net profit of the Group.

#### **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.

### Foreign Currency Risk

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.

### 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 September 30, 2017 and December 31, 2016, follows:

	2017	2016
Debt	\$32,737,335	\$27,749,080
Equity	34,966,296	34,582,936
Debt-to-Equity Ratio	\$0.94:1	\$0.80:1

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

Debt is composed of trade and other payables, loans payable, due to a related party and income tax payable as discussed in Notes 13, 14, and 15 respectively, while equity includes share capital and reserves of the Group, less treasury shares. The computed ratios above are acceptable.

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 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.