

COVER SHEET

A	1	9	9	7	0	1	8	4	8		
---	---	---	---	---	---	---	---	---	---	--	--

S.E.C. Registration Number

A	G	R	I	N	U	R	T	U	R	E	,		I	N	C	.													
---	---	---	---	---	---	---	---	---	---	---	---	--	---	---	---	---	--	--	--	--	--	--	--	--	--	--	--	--	--

--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

(Company's Full Name)

3	0	-	A		W	A	S	H	I	N	G	T	O	N		T	O	W	E	R		A	S	I	A				
---	---	---	---	--	---	---	---	---	---	---	---	---	---	---	--	---	---	---	---	---	--	---	---	---	---	--	--	--	--

W	O	R	D		C	I	T	Y		M	A	C	A	P	A	G	A	L		A	V	E	N	U	E				
---	---	---	---	--	---	---	---	---	--	---	---	---	---	---	---	---	---	---	--	---	---	---	---	---	---	--	--	--	--

P	A	R	A	N	A	Q	U	E		C	I	T	Y																
---	---	---	---	---	---	---	---	---	--	---	---	---	---	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

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

Kenneth S. Tan														
Contact Person														

8793256														
Company Telephone Number														

1	2
---	---

Month

3	1
---	---

Day

Fiscal Year

1	7	-	Q	
---	---	---	---	--

FORM TYPE

3rd Monday of May									
-------------------	--	--	--	--	--	--	--	--	--

Month

Day

Annual Meeting

N/A														
-----	--	--	--	--	--	--	--	--	--	--	--	--	--	--

Secondary License Type, If Applicable

--	--	--

Dept. Requiring this Doc.

N/A														
-----	--	--	--	--	--	--	--	--	--	--	--	--	--	--

Amended Articles Number/Section

--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

Total No. of Stockholders

Total Amount of Borrowings														
----------------------------	--	--	--	--	--	--	--	--	--	--	--	--	--	--

Domestic

Foreign

To be accomplished by SEC Personnel concerned

--	--	--	--	--	--	--	--	--	--

File Number

LCU

--	--	--	--	--	--	--	--	--	--

Document I. D.

Cashier

STAMPS														
--------	--	--	--	--	--	--	--	--	--	--	--	--	--	--

Remarks = pls. use black ink for scanning purposes

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17 – Q

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

1. For the quarterly period ended **March 31, 2010**
2. SEC Identification Number **0199701848**
3. BIR Tax Identification Code **200-302-092-000**
4. Name of Issuer as specified in its charter **AGRINURTURE, INC. AND SUBSIDIARIES**
5. **METRO MANILA, PHILIPPINES (NCR)**
Province, country or other jurisdiction of incorporation or organization
6. Industry Classification Code: (SEC Use Only)
7. **NO. 54 NATIONAL ROAD, DAMPOL II-A, PULILAN, BULACAN PHILIPPINES** **3005**
Address of issuer's principal office Postal Code
8. Issuer's telephone number, area code **(02) 638-1549**
9. Former name, former address and former fiscal year, if changed since last report **N. A.**
10. Securities registered pursuant to Section 8 and 12 of the SRC or Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding or Amount of Debt Outstanding
Common Shares	195,303,871 (Authorized 300,000,000 shares @P1.00 par value)

11. The registrant's securities are listed in the Philippine Stock Exchange (PSE) and the National Stock Exchange of Australia (NSX).

On 19 January 2009, the CHES Depositary Interests relating to 178,536,602 common shares of the Company were listed in the National Stock Exchange of Australia.

On 25 May 2009, the Company's 178,536,602 issued and outstanding common shares were listed by way of introduction on the Second Board of the Philippine Stock Exchange.

AGRINURTURE, INC. AND SUBSIDIARIES
Securities and Exchange Commission Form 17 - Q

Part I FINANCIAL INFORMATION

OPERATIONAL AND FINANCIAL INFORMATION

Item 1. Financial Statements

Pls. See Exhibits A

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

REVENUE AND EXPENSES

Gross receipts generated for the 1st quarter ended March 31, 2010 amounted to **P261.4 M** while for the same quarter last year, **P168.414 M** was recorded. Of the total receipts, P58.073 M came from Export sales, while the Fresh Group contributed P182.987 M and the rest came from Local sales-Processed Foods and the Farming Group. Parallel to the augmentation in sales are the increase of direct costs to P218.382 M in the current quarter compared to the last year's quarter of P138.872 M. Operating expenses was likewise raised to P36.608 M compared to the same quarter last year's P27.03 M. The company anticipated a higher operating income during this period having experienced varying upward demands on agricultural produce at the initial quarter of the year.

RESULTS OF OPERATIONS

Quarterly Ended March 31, 2010 Compared to Quarterly Ended March 31, 2009

The following comparison of the Company's results of operations is based on the Company's interim financial statements.

Net Sales

Net sales increased by 55.21% from P168.414 million in 2009 to P261.4 million in 2010, reflecting an increase in domestic sales outlets, additional clients and export expansion.

Summarized are comparative revenue, cost and expenses for the period:

Particulars	NOTES	2010	2009	2008
Sales		261,401,108	168,414,107	185,496,170
Cost of Sales	12	218,381,917	138,872,065	143,276,607
Gross Profits		43,019,191	29,542,042	42,219,563
Operating Expenses	13	35,104,098	27,025,946	31,091,534
Operating Income		7,915,093	2,516,096	11,128,029

The increase in sales in the current quarter compared to the previous year's quarter is mainly due to the changing item per item demands normally experienced - business trends during the

period. Aside from the increase in number of outlets, the company started an aggressive investment program in farming through its subsidiary, BCHI. Sales are expected to pick up starting on the second quarter of the year.

DIRECT COST

For the 1st quarter of 2010, direct costs amounted to P218.382 million and P138.872 million for the same period last year where increase is parallel to the increase in sales. The demand for ANI's products may be affected by the fluctuations in prices, as determined by seasonality, weather, quality and farm productivity. While the company deals in widely consumed agricultural products, especially fruits and vegetables, it may be argued that a large portion of these products represent discretionary purchases.

Cost of sales increased by 57.25% from P138.872 million in 2009 to P218.382 million in 2010. This increase was primarily the results of the increase volume of production consonance with the increase in sales.

Cost of sales consists of:

- the cost of purchasing fruits and vegetables and raw material from growers and other traders and suppliers;
- the cost of taxes and licenses;
- depreciation and amortization costs, which relate primarily to the depreciation of production equipment, vehicles, facilities and buildings;
- personnel expenses, which include salary and wages, employee benefits and retirement costs for employees involved in the production process;
- repairs and maintenance costs relating to production equipment, facilities, vehicles and buildings;
- fuel and oil costs relating to the production and distribution process;
- communications, light and water expenses relating to the Company's distribution and production processes and facilities; and
- other costs of sales, which include miscellaneous expenses such as supplies, rental, insurance and freight expenses.

OPERATING EXPENDITURES

The Group incurred normal operating expenses in relation to the volume of sales and the corresponding revenue generated. (See details). Normally most of the Company's cost are variable, with fixed costs comprising mainly of salaries and production and logistics assets. The company has begun relying on billboard, radio, participation in sports league, non-traditional ads, print and television (cooking show) advertising to push its "Fresh Choice Always" brand. Advertising and promotions are important factors for consumer buying choices. Advertising affects consumer awareness of the Company's products by distinguishing it from other fresh produce, some of which are sold unbranded.

The Company's operating expenses for the first quarter of 2008, 2009 and 2010 consist of selling and administrative expenses amounted to P31.092M, P27.026M and P35.104M respectively.

The Company's operating expenses include the following major items:

- delivery expenses
- salaries, wages and other employee benefits
- advertising and promotions expenses
- professional fees
- repairs and maintenance expenses
- taxes and licenses
- transportation and travel expenses

- depreciation and amortization
- other operating and administrative expenses.

Operating Expenses	note	First quarter		
		3/31/2010	3/31/2009	3/31/2008
Deliveries		4,788,044	7,507,885	7,875,557
Contracted Services		-	3,957,397	4,153,285
Salaries, wages and other employee benefits		9,772,841	3,296,872	7,666,272
Advertising and promotions		7,902,728	1,229,738	2,490,078
Professional fees		1,385,238	522,834	1,250,200
Depreciation and amortization		2,234,922	1,491,610	1,251,939
Transportation and travel		757,618	318,127	976,272
Maintenance and upkeep		1,070,125	1,500,000	
Repairs and maintenance		1,870,520	504,412	749,473
Communication, light and water		361,766	1,312,761	750,217
Taxes and licenses		653,389	475,000	498,899
Bank charges		-	32,156	
Representation and entertainment		1,306,420	380,548	426,384
Brokerage and handling fees		240,499	33,337	231,604
SSS, Philhealth and Pagibig contributions		554,931	467,067	494,237
Office Supplies		1,207,697	187,837	162,835
Security services		492,921	312,958	162,000
Rent		30,100	99,075	330,925
Retirement benefit cost		35,000	34,971	11,657
Miscellaneous		439,339	3,361,359	1,609,700
Total Operating Expenses		35,104,098	27,025,946	31,091,534

Top Four (4) Key Performance Indicators

1. Sales Efficiency Ratio

Measures the percentage of the total volume of sales over the total number of outlets.

2. Gross Profit Ratio

Measures the margin per peso of sales that will absorb operating expenses.

3. Operating Ratio

Reflects the portion of sales used for the operating costs and it is computed as cost of goods sold plus operating expenses over net sales.

4. Operating Margin

Measures the ratio of net operating income to net sales and it is computed as net operating income over net sales.

Discussion and Analysis of Material Events and Uncertainties

The company has no knowledge and not aware of any material event/s and uncertainties known to the management that would address the past and would have an impact on the future operations of the following:

- a) Any known trends, demands, commitments, events or uncertainties that will have a material impact on our liquidity
- b) Any events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of obligation.
- c) All material off-balance sheet transactions, arrangements, obligations and other relationships of the company with unconsolidated entities or other persons created during the period.
- d) Any material commitments for capital expenditures, the general purpose of such commitments and the expected sources of funds for such expenditures.
- e) Any known trends, events or 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.
- f) Any significant elements of income/loss did not arise from our continuing operation.
- g) Any seasonal aspects that had a material effect on financial condition or results of operations.

PLAN OF OPERATIONS

Management Plans

ANI as a Parent

The Company was incorporated on February 4, 1997 as Mabuhay 2000 Enterprises Inc. It was established to engage primarily in the trading, distribution, marketing of goods, commodities, wares and merchandise and to enter into contracts for the export, import, purchase, acquisition, sale of goods, wares, merchandise or products. The Company started its business operations in the same year as an importer, trader and fabricator of post harvest agricultural machineries intended to improve the productivity and reduce the post harvest losses of farmers.

Beginning in 2001, the Company diversified into other various agrocommercial businesses, specifically focusing on the export trading of fresh Philippine Carabao Mangoes “kinalabaw variety” as its main revenue stream. It acquired its new name, **Agri-nurture, Inc.**, on February 8, 2008. Since then, ANI has become one of the Philippines’ top fresh mango exporters and only exporter of coconut water in can and fresh tamarind to the world market. At present, ANI also supplies other homegrown fruits such as coconut, banana, pineapple and papaya to customers in Greater China Region, the Middle East, North America and European Union under the “Fresh Distribution Group”.

On January 19, 2009, ANI was listed at the National Stock Exchange (NSX) of Australia. On May 25, 2009, ANI was listed by way of introduction at the PSE. On April 20, 2010 the board approved the delisting of ANI from NSX and prepare for listing at ASX.

Operations of the Parent Company

At present, ANI is engaged primarily in the trading and exporting of commercial crops with Philippine Carabao Mangoes as the top exported item. Other crops include banana, pineapple, papaya, and tamarind which are sold to various clients worldwide. Over the last three (3) years, total sales showed an increasing trend with an average annual growth rate of 13.5% from 2007 to 2009. Export sales averaged 86% of the reported revenue for the period 2007-2009. Local sales was slowly passed on to fresh distribution group.

Particulars	ANI Parent Revenues		
	2007	2008	2009
Sales	154,803,961	178,249,812	201,732,676
Export Sales	133,273,055	132,220,000	197,698,022
Local Sales	21,530,906	46,029,812	4,034,654
% of Total Sales			
Export Sales	86%	74%	98%
Local Sales	14%	26%	2%
Net Income	880,386	504,925	10,098,706

For 2009, approximately 40% of ANI's export revenues were exported to Greater China, 30% to the rest of Asia and Pacific and 30% to the North America and Europe. ANI expects these countries to continue to be its largest exports markets.

Operations through Subsidiaries

Through its subsidiaries, ANI serves the domestic market through the sourcing, trading and distribution of fresh fruits and vegetables to supermarkets, wet markets and other institutional accounts throughout the Philippines. At the same time, the ANI group has started to develop its own farm production capability to mitigate its supply risks, although at present the group sources its produce mainly from third party farmers and growers.

ANI's operations are divided into the *Fresh Distribution Group*, which handles the distribution of fresh fruits and vegetables throughout the Philippines, especially in Luzon island; the *Processed Foods Group*, which handles the production of export quality processed fruits using homegrown fruits as ready to consume, frozen raw materials and ingredient mixes; and the *Farming Group*, which manages the farming activities of ANI to partially serve the supply requirements of ANI and its distribution subsidiaries.

Fresh Distribution Group

ANI has three subsidiaries under its Fresh Distribution Group:

- First Class Agriculture Corporation (FCAC), a wholly-owned subsidiary of ANI, is engaged in the distribution of fruits and vegetables to supermarket chains, where it markets its produce under the "FCA" (First Choice Always) brand. It supplies more than 100 varieties of vegetables and local fruits daily to more than 20 outlets in NCR and in some provinces in Luzon. FCAC earned revenues of **Php402.7Mn** in 2009, **Php331.5Mn** in 2008 and **Php282.4Mn** in 2007; and Net Income of **Php17.5Mn** in 2009, **Php4.9Mn** in 2008 and **Php4.8Mn** in 2007.
- Fresh and Green Harvest Agricultural Corp. (FG) is a wholly-owned subsidiary of FCAC. Fresh and Green Harvest (F&G) is engaged in the commercial distribution of fresh vegetables and fruits to the SM Hypermarket chain and Makro outlets. It supplies more than 100 varieties of vegetables and local fruits daily to more than 20 branches in NCR. FGHAC earned revenues of **Php301.3Mn** in 2009, **Php221.9Mn** in 2008 and **Php184.5Mn** in 2007; and Net Income of **Php12.8** in 2009, **Php4.0** in 2008 and **Php1.1** in 2007.
- Lucky Fruit and Vegetable Products Inc. ("LF") is wholly-owned by ANI and is engaged in the wholesale trading and distribution of commercial crops to various supermarkets and institutional accounts such as hotels, restaurants, public markets and catering companies throughout Luzon and the Visayas region. Lucky Fruits earned revenues of **Php20.9Mn** in 2009, **Php21.4Mn** in 2008 and **Php17.8Mn** in 2007; and Net Income of **Php.937Mn** in 2009, **Php.089Mn** in 2008 and **Php.065Mn** in 2007.

Fresh produce is sourced through the centralized purchasing office under the office of the Chief Procurement Officer which operates and maintains nationwide buying stations and handles importation. Under the Chief Procurement Officer, the purchasing group is classified into several categories namely: Chopsuey, Pinakbet, Salad, Spices, Local Fruits, Imported Fruits, Commodities, and Other Non-Perishables.

Normally the Company provides cash payment for small farmers, weekly payment for big suppliers of fresh produce, and 60-120 days for other non-perishable items such as packaging materials and food ingredients.

Processed Food Group

The Processed Food Group consists of two subsidiaries, as follows:

- M2000 Imex Co., Inc. is a wholly-owned subsidiary of ANI and is engaged in the manufacture and processing of its own brand of canned fruit products such as Mango Nectar, Coco Juice, Coco Cream, and Coco Milk, condiments fermentation and processed vegetables. The Company likewise provides toll-packing services to several local companies and shall begin operating a vegetable freezing unit to serve the overseas Filipino communities with frozen ready to cook and pre-cooked Philippine vegetable dishes. M2000's products are produced for export, with its largest markets being North America (30%), the Middle East (30%), Asia (25%), Europe (10%) and local 5%.

The canning facility has a capacity of 200,000 cans per day. It sources its aluminum cans from San Miguel Packaging while its tin cans are imported from Taiwan.

The current manufacturing arm also act as the R&D unit for the fresh distribution group in terms of identifying shelf life extension techniques and value added processed for ready to cook and ready to eat items.

M2000 earned revenues of **Php22.2Mn** in 2009, **Php19.6Mn** in 2008; Net Income of **Php1.95Mn** in 2009, **Php(1.4Mn)** in 2008.

- Fruitilicious Inc. is 90%-owned by ANI. It operates a fruit freezing and processing facility to produce frozen and dried fruit products and by-products for local and international clients. Its plant is located in Cagayan de Oro at the corner of the fruit bountiful provinces of Bukidnon, Davao, Lanao del Norte and Agusan del Sur in Mindanao. Fruitilicious also serves as the ANI group's logistics and sourcing hub for its Mindanao operations. It operates a 7 hectare farmland and also operates a cold storage.

Farming Group

The group's farming activities are handled through Best Choice Agricultural Corporation (BCH), a wholly owned- subsidiary of FCAC, which is engaged in the management and development of the Company's farms in various provinces throughout Central Luzon and Mindanao. Currently, the primary role of the farms is to augment the Group's supply requirements. However, current expansion and development of the Company's farms are being undertaken with the objective of eventually making the farms the primary source of supply for the Group.

BCAC is also engaged in introduction, field-testing and commercialization of new, imported crop varieties that are high yielding as well as livestock integration and bio-fuel feedstock development. Currently, it maintains and manages farms located in Pampanga, Tarlac, Zambales, Benguet, Cavite, Batangas, and Cagayan de Oro.

The current farm operations of Best Choice Harvest are as follows:

1. Mabalacat Demo Farm (35 hectares) demo, training, sales of farm equipment and inputs, production of high value crops under green houses. In partnership with GuangDong Academy of Agriculture and Science for research and development. The Demo Farm also is equipped with tissue culture laboratory, vermin culture and organic fertilizer production and mushroom project.
2. Capas Vegetable Farm (53 hectares) production of pinakbet vegetables and mango orchard.
3. Bamban Aeta Village (50 hectares expandable to 10,000 hectares) production of rootcrops and jathropa
4. San Antonio, Zambales Farm (70 hectares) production of watermelon and few vegetable items.
5. Subic, Zambales Farm (7 hectares) production of bamboo, coconut, and mango.
6. Indang, Cavite Farm (7 hectares) production of salad vegetables.
7. Trece Martires Farm (37 hectares) production of papaya, rootcrops, and vegetables.
8. Lipa Batangas Farm (11 hectares) production of leafy vegetables.
9. Cagayan de Oro Farm (7 hectares) production of rootcrops.
10. Palawan Corn Plantation (300 hectares) production of corn.
11. Palawan Pineapple Farm (51 hectares) production of pineapple.
12. Ozamis Corn Plantation (300 hectares) – production of corn.
13. Nueva Ecija Rice Plantation (500 hectares) In partnership with Bei Da Huang Philippines Inc.

Each farm is equipped with farm animals and farm equipment. A permanent farm supervisor is assigned to each farm while the rest of the workers are seasonal basis. Normal work time is 4 hours after sunrise and 4 hours before sunset with daily targets similar to piece rate basis.

Strengths

The Company believes that its principal strengths include the following:

Competitive Strengths

Complete and strategic integration of its operations

The Company is moving toward full integration of its operations from farm to market to table. This shall provide the Company with a stable and responsive supply pipeline through its farms, thereby equipping the Company with the ability to better control the quality, volume and prices of its products. Expanding its retail distribution channels to include the public markets will further reduce or eliminate wastage altogether. In addition, its processing subsidiaries, Fruitilicious, and M2000 IMEX, engaged in the processing and manufacturing of fruit products and beverages, source their raw materials from the Group's subsidiaries. This assures the quality of the ingredients of the Processing Group's products and provides excellent pricing for its supply. This integration significantly reduces spoilage or wastage of the excess or unused output of the Group's subsidiaries.

Ability to constantly innovate products and services to maximize use of its strong network of local and foreign distribution channels

The Company is able to rapidly penetrate new markets, and has quickly established a global marketing presence. Among its recent innovations include the successful development and marketing (through subsidiary M2000 IMEX Co.) of several new processed juices for the international market such as Coconut Juice and Tamarind juice in cans. It has likewise successfully commercialized locally the new high value, hybrid variety of the sweet melon.

ANI will soon launch its ecommerce store, <http://www.ani.com.ph/>, which will allow buyers from the food services sector, namely, hotels, restaurants, catering companies, and canteens to book their orders online, with the guarantee of next day delivery.

To reach a wider segment of the market, ANI will launch the FCA Wet Market Wholesale Shop (which will sell vegetables in a neat location, with neat packaging) in the 2nd quarter of 2010. Initial areas of operation shall be the Balintawak and Divisoria markets followed by class A and B wet markets in Metro Manila and in the urban centers of neighboring provinces. The company shall also be setting up The Lucky Store (staple and seasonal fruits in trendy locations, with trendy packaging) which will be launched in 2nd half of 2010. All these would seek to maximize market reach across all segments through various channels of distribution.

Established reputation of offering quality products and services

The Company's track record of performance and firm grasp of the markets in which it operates is evidenced by accreditations and recognition from local and international agencies. ANI has over thirteen years of experience in handling fresh fruits and vegetables and gaining many years worth of learning in product innovation, and is consistently in Philexport's list of the top 100 exporters of the country. The Company has attained product acceptance in major world markets such as the Greater China Region, Middle East and North America. It has catapulted ANI into being one of the top exporters of mangoes from the Philippines. The Company is even now one of the few accredited by the China government to export mangoes to their country.

Currently, ANI's businesses are accredited by: (i) the General Administration of Quality Supervision (AQSIQ) of China, allowing the company to export directly to mainland China; (ii) the USDA for the export of canned juices to mainland USA; (iii) the Department of Agriculture – Bureau of Plant Industry for the importation of fruits, spices and other planting materials; Bureau of Animal Industries for the importation of feeds and additives; Fertilizer and Pesticides Authority for the importation of fertilizers and agri chemicals; PHILCOA for the export of coconut products. (iv) the Department of Health – BFAD for the operation of the canning facility in Pulilan, Bulacan; Freezing facility in Cagayan de Oro and (v) the Department of Finance – Bureau of Customs for the importation and export of various products and materials. The accreditations allow the Company to quickly take advantage of opportunities in these major markets. The Company believes that few, if any other major agricultural companies in the Philippines can boast this level of accreditations from agencies all over the world. Generally, it takes years of effort and an established professional track record to secure these types of permits. The Company is currently in the process of securing HACCP and ISO certification.

Exceptional human resource pool and philosophy

The Company is able to recruit and retain reliable, creative and well trained managers, staff and employees thereby allowing its businesses to continue to succeed. ANI believes that its most important resources are the employees. ANI attributes its continued growth in the industry to its reliable, creative and well trained managers, staffs and employees. Its executives and operational managers have had more than a decade of experience in the business of farming, fresh produce distribution, and fruit and juice processing. They are supported by experienced and competent multilingual marketing staff and purchasers.

The Company's operations are supported by a flat organizational structure. Senior management (division heads) exercise executive and policy functions while at the same time have direct control over operational line managers. This arrangement provides for a streamlined, proactive and *real-time* planning and decision making process which allows management to be immediately responsive to operational issues and developments.

Economies of Scale

Through its backward and vertical integration from farm production to wholesale distribution to food processing, ANI is able to derive significant benefits from economies of scale. ANI's

acquisition of FCA, FG, and the expansion of BCH consolidate sources and supply chains for vegetables and fruit. Full development of its own farms through the *Farming Group* shall equip the Company with large scale production capacity which shall significantly reduce fixed costs. Being a large volume buyer, the Company is able to avail of volume discounts when purchasing from third party suppliers. The Processed Food Group further expands ANI's market, in terms of volume and diversity of products, while allowing the group to minimize wastage and manage seasonality risks.

STRATEGIES

Business Strategy

In pursuit of its vision to become a world class supplier of high quality fruit and vegetable products, the Company adopted a strategic program that has transformed its purely *farm-to-market* trading business model into a *farm-to-plate* business model supported by complete forward and backward integration. As a result, ANI's range of operations has expanded to include all vital business activities from farming, packing, trading, distribution, processing, canning, up to retail sales. The Company's strategy revolves around maximizing its competitive strengths: *i) a well-established nationwide supply network to source its products from; ii) a well-entrenched and wide local and foreign distribution network to sell its products through; iii) technological and production capability to develop not only fresh, but also, processed fruit & vegetable products.*

Backward integration of ANI's operations is being undertaken by the farming arm, BCH, which is continually developing farmlands either through lease, joint venture, or contract growing arrangements to mitigate the supply risks inherent in purchasing from third parties. The wide dispersal of the locations of farmlands throughout the central and southern regions of the country enables ANI to spread the risk against weather disturbances, pest infestation, manmade and natural disasters. Currently, ANI is working out farming ventures with China's biggest Agricultural company Bei Da Huang for the development and distribution of high yielding hybrid rice seedling and Far East Agricultural Co. Holding of Kingdom of Saudi Arabia for the joint development of a 50,000 hectare plantation of high value fruits and commodities.

On the domestic marketing side, ANI, through the subsidiaries of the *Fresh Distribution Group*, shall be expanding its market presence from supermarkets to wet markets, particularly in Metro Manila, Northern Luzon, and CALARBARZON. The Company estimates that the wet market sector accounts for 70 % of the Philippines' total fresh fruit and vegetable market.

At present ANI's distribution of fresh goods is primarily through major supermarkets such as the SM Supermarket and Hypermarket chain, the Puregold chain, Metro Gaisano, Metrotown, Lianas and Waltermart. Within fiscal year 2010, the Company expects to have established distributorships through all existing supermarkets in the country. The current thrust to also serve wet markets shall increase ANI's trading volumes by up to 100% in the first year of expansion. To support the the greater trading volumes, , ANI is currently investing in additional logistics assets such as transport vehicles, packing and warehousing units, and cold storage assets.

ANI shall be further maximizing use of its local supermarket distribution network by introducing dairy products (imported UHT milk and fresh milk products) into its distribution pipeline within the 2nd half of 2010.

To strengthen servicing of its foreign distribution channels, ANI has set up a representative office in Hong Kong to cater to Greater China clientele and within 2010 ANI shall set up a representative office in Brisbane, Australia to better monitor and expand its existing market channels in that region. Currently, ANI sells processed foods and juices in Australia through Asian owned/operated stores and fresh fruits to

New Zealand mainstream market. By having a permanent presence in the Australia-New Zealand territory, ANI is expected to speed up the penetration of major market channels. In addition, the representative office is expected to have better access and supply management in anticipation of ANI adding the dairy products into its distribution system within the 2nd half of the year 2010.

ANI intends to aggressively pursue regional expansion through mergers and acquisition with other regional companies. The initial targets for ANI's regional expansion shall be agriculture or food companies in Greater China Region and/or Southeast Asia Region. Tie ups with agricultural companies in Central and South America are currently being nurtured and developed. By 2010, ANI intends to establish bigger market share in North America and Europe by cross selling items currently being planted by farmers in Central and South American Continent. With these tie ups, the farms in Central and South America will be able to produce crops that North American clients source from ANI resulting in significant savings in freight cost. The reduction of freight cost will increase market demand for specific produce since fruits and vegetables are price-sensitive products. Potential opportunities due to seasonality factor in fruits and vegetables can also be maximized due to the difference in the geographic location. This will also enable ANI to commit to year-round supply for its major US and Canadian clients.

As of the last quarter of 2009, ANI has completed the 400 ton capacity cold storage facility in Pulilan, Bulacan and 100 ton cold storage in Cagayan de Oro. Moving forward, ANI intends to expand Pulilan Cold Storage capacity to 3,000 tons, while increasing the Cagayan de Oro facility to 1,000 tons and set up a new cold storage in Cebu.

To further strengthen the “farm to plate” model and the vision to be a fully integration fruits and vegetables company, ANI is set to acquire a coconut factory in Southern Luzon and a banana factory in Mindanao by 2nd quarter of 2010. The acquisition is expected to generate additional revenue, income, and at the same time outlet for class B fruits that ANI farms will generate.

MARKETING, SALES AND DISTRIBUTION

Marketing Activities

To further enhance its competitive strength and build a strong corporate brand, ANI intends to deepen the respective specialization and expertise of its subsidiaries and focus on a specific business area or market. LF would be groomed to be a preferred brand for both local and imported fruits and even go into innovative arrangements such as cross trading. Meanwhile, FG will be integrated into FCA so that brand building activities would be started, promoting the tagline, "Fresh Choice Always". On the other hand, FCA was re launched as a premium brand for “veggie safe” and “veggie licious” vegetables that will create more awareness among children and housewives and increase consumption of fruits and vegetables. Currently, Filipino consumption of fruits and vegetables is one of the lowest in the world with only less than 30kg per year whereas WHO standard is 200kg per year. Due to this, FCA will launch the new theme, Good Stuff for Good Life! effective May of 2010.

ANI has invested in media and advertising activities intended to rapidly increase brand-awareness of the public. In mid-March of 2010, FCA launched the unique tv cooking show dubbed “Healthy Cravings,” hosted by Iza Calsado and Chef Jeremy Favia and aired on QTV Channel 11 every Sunday 11am with a target audience belonging to females of Class A and B. Also in March, 2010, FCA undertook sponsorship of a basketball team at PBL with the aim of promoting sports at the same time awareness of the FCA brand among young generation.

A new set of posters endorsed by celebrities Alfred Vargas, Connie Sison, and Chef Jeremy Favia will be launch via the trucks of ANI and billboard sites located at NLEX, SCTEX, C5, SLEX, Packing Houses, and Farms.

In April of 2010, ANI will launch the Agri discussion radio program of DWIZ 882 every Saturday 5pm. The FCA jingle was launched to prepare in preparation for the launch of the Veggie Cart concept that which is targeted at supplying fruits and vegetables to the class A and B subdivisions in Metro Manila cities.

REGULATION AND TAXATION

Currently, the company and its subsidiaries are required to pay 30% Corporate Tax. Most of the group's revenues are VAT-free transactions due to the exemption of agriculture crops and export revenues from 12% VAT. Only processed goods intended for local distribution are subject to the 12% VAT.

Best Choice Harvest, the farming subsidiary is expecting to be granted a 4 year tax holiday by BOI while M2000 Imex is filing an application for 4 year tax holiday owing to its expansion. AgriNurture, on the other hand, is identifying potential locations to transfer to in an appropriate Export Processing Zone to avail of an incentives that will allow the company to pay a tax rate of only 5% instead of its current rate of 30%.

EMPLOYEES

The table below presents the Company's personnel numbers by functional category for the periods indicated.

Category	Number of Employees			
	For the year ended Dec. 31, 2007	For the year ended Dec. 31, 2008	For the year ended Dec. 31, 2009	As of March 31, 2010
Executives (Officers and Managers)	20	30	40	50
Project employees and Consultants	1	3	4	5
All other employees	600	685	680	675
Total	621	718	724	730

There is no labor union in the organization.

INSURANCE

The Company has an all-risk policy for each of its facilities and inventories against a variety of risks, including, among others, fire, lightning, catastrophic perils (typhoon, flood, earthquake, volcanic eruption), machinery breakdown, explosion, civil commotion, riot/strike, malicious damage, and other perils liability.

INSURANCE OF PROPERTY

		Insured Amount
1. Canning Facility Line in Pulilan	Orix Metro	15,000,000.00

2. Cold Storage Facility in Pulilan	Philchartet	24,800,000.00
3. Walk In Chiller In Pulilan	Philchartet	5,256,915.00
4. Pulilan Property	Landbank	33,975,000.00
5. FCA Property Arayat	UCPB General	12,495,000.00

91,526,915.00

In addition to the all-risk policy, the Company maintains various general liability and product liability insurance policies covering its operations. These policies do not cover liability as a result of pollution or environmental damage by the Company.

The Company has a marine cargo insurance policy to cover domestic and international shipment of goods and equipment. A products liability insurance policy insures all of the Company's export product. The Company's insurance policies are provided by leading Philippine insurance companies that are generally reinsured by major international insurance companies.

HEALTH, SAFETY AND ENVIRONMENTAL MATTERS

The Company is subject to a number of employee health and safety regulations in the Philippines. For example, the Company is subject to the occupational safety and health standards promulgated by the Philippine Department of Labor and Employment. The Company believes that a safe and healthy work environment is fundamental to the management of its human resources as well as conducive to greater employee productivity. The Company has a safety management group responsible for formulating, implementing and enforcing the Company's employee health and safety policies as well as ensuring compliance with applicable laws and regulations.

The Company is also subject to various laws and regulations concerning the discharge of materials into the environment. The Company is subject to extensive regulation by the Philippine Department of Environment and Natural Resources.

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.

Issuer **AGRINURTURE, INC. AND SUBSIDIARIES**



Signature and Title **MR. ANTONIO L. TIW**
Chief Executive Officer

Date May 2010



Signature and Title **MR. KENNETH S. TAN**
Chief Financial Officer

Date May 2010

Agrinurture, Inc. and Subsidiaries

#35 Gasan St., Masambong SFDM, Quezon City. (02) 413-5566

EXHIBITS

INTERIM FINANCIAL STATEMENTS

AGRINURTURE INC (Formerly Mabuhay 2000 Enterprises, Inc.)
CONSOLIDATED INTERIM BALANCE SHEET
March 31, 2010

With comparative figures for 2009 and 2008 and December 31, 2009

	Note	1st qtr 2010	1st qtr 09	2008	12/31/2009
ASSETS					
Current Assets					
Cash		89,581,912	31,714,359	13,165,570	152,186,392
Trade and other receivables	4	283,616,373	129,533,422	70,111,680	239,196,808
Note receivable	5	58,000,000	58,000,000	50,000,000	58,000,000
Subscription receivable		-	-	61,166,696	
Due from stockholders, officers and employees	16	51,198,665	192,872	70,714,032	50,699,965
Advances to projects		70,798,189	96,329,914	25,670,914	53,412,422
Inventories	6	41,404,383	31,109,916	18,570,041	37,749,478
Prepayments and other current assets		15,755,703	7,162,457	3,495,165	13,151,138
Total Current Assets		610,355,226	354,042,940	312,894,098	604,396,203
Non-current Assets					
Investments					
Property, plant and equipment, net	7	147,386,665	147,088,570	59,081,385	145,761,509
Deferred tax assets	17	225,777	945,608	138,234	225,777
Goodwill	22	19,509,913	19,509,913	30,111,221	19,509,913
Other non-current assets		232,368	7,907,098	3,887,044	31,501
Total Non-current Assets		167,354,724	175,451,189	93,217,884	165,528,700
Total assets		777,709,950	529,494,129	406,111,982	769,924,903
LIABILITIES AND EQUITY					
Current Liabilities					
Trade and other payables	8	29,118,158	56,451,522	31,397,261	50,398,309
Current portion of long-term notes payable	9	189,687,479	176,077,640	142,000,511	166,734,989
Due to stockholders, officers and employees	16	4,752,991	14,652,684	31,205,229	3,182,227
Income tax payable		4,477,472	633,751	1,444,601	2,553,993.00
Other current liabilities		14,032			
Total Current Liabilities		228,050,131	247,815,597	206,047,602	222,869,518
Non-current Liabilities					
Long-term notes payable		-	15,680,391	12,145,023	-
Pension liability	14	768,215	560,265	394,953	733,215
Deferred tax liability		-		130,665	
Total non-current Liabilities		768,215	16,240,656	12,670,641	733,215
Total Liabilities		228,818,346	264,056,253	218,718,243	223,602,733
Issued capital and reserves attributable to the owners of the parent					
Share capital - P1 par value					
Authorized - 300,000,000 shares					
Issued - 191,868,445 in 2009; 178,536,602 shares in 2009 and 2008	10	191,868,445	178,536,602	35,758,439	191,868,445
Share premium		306,832,220		61,166,696	306,832,220
Subscribed capital stock		-			
Deposits for future subscription		-	75,087,228	70,980,000	
Retained Earnings	10	-			
Appropriated		19,000,000	19,000,000	19,000,000	19,000,000
Unappropriated		31,190,939	(7,185,954)	488,604	28,621,505
Total Equity		548,891,604	265,437,876	187,393,739	546,322,170
Equity Attributable to minority interest					
Total Equity		548,891,604	265,437,876	187,393,739	546,322,170

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the Three months Ended March 31, 2010

(With Comparative Figures for 2009 and 2008)

Amounts in Philippine Pesos

	Equity Attributable to the Equity Holders of the Parent Company						Minority Interest	Total
	Notes	Share Capital (Issued and Outstanding)	Subscribed Capital Shares	Deposits for Future Stock Subscriptions	Retained Earnings (Deficit)			
					Appropriated	Unappropriated		
Balances at January 1, 2008		10,000,000		95,898,440		3,562,842	17,095,885	126,557,167
Issuance of common shares		839,999						839,999
Additional subscriptions of common shares			61,166,696					61,166,696
Transfer of Deposits for future stocks								-
subscription to share capital		24,918,440		(24,918,440)				-
Acquisition of remaining equity interest of FCAC							(17,095,885)	(17,095,885)
Appropriation for future dividends					19,000,000	(19,000,000)		-
Net income for the period						15,925,762		15,925,762
Balances at March 31, 2008		35,758,439	61,166,696	70,980,000	19,000,000	488,604	-	187,393,739
Balances at January 1, 2009		178,536,602			19,000,000	(6,700,039)	17,095,885	207,932,448
Issuance of common shares								-
Transfer of Deposits for future stocks								-
subscription to share capital				75,087,228				75,087,228
Acquisition of remaining equity interest of FCAC							(17,095,885)	(17,095,885)
Appropriation for future dividends								-
Net income for the period						(485,915)		(485,915)
Balances at March 31, 2009		178,536,602		75,087,228	19,000,000	(7,185,954)	-	265,437,876
Balances at January 1, 2010		191,868,445	306,832,220		19,000,000	28,621,505		546,322,170
Deposits for future subscriptions								-
Prior period adjustments								-
Dividends declared						(1,918,684)		(1,918,684)
Issuance of common shares								-
Share premium								-
Net income for the period						4,488,119		4,488,119
Balances at March 31, 2010		191,868,445	306,832,220	-	19,000,000	31,190,939	-	548,891,604

INTERIM CONSOLIDATED STATEMENT OF INCOME
For the quarter months ended March 31, 2010
(With comparative figures for 2009 and 2008)

FIRST QUARTER

Particulars	NOTES	2010	2009	2008
Sales		261,401,108	168,414,107	185,496,170
Cost of Sales	11	218,381,917	138,872,065	143,276,607
Gross Profits		43,019,191	29,542,042	42,219,563
Operating Expenses	12	35,104,098	27,025,946	31,091,534
Operating Income		7,915,093	2,516,096	11,128,029
Other Income (Expenses), net	15	(1,503,495)	(3,002,011)	7,779,734
Income Before Income Tax		6,411,598	(485,915)	18,907,763
Provision for Income Tax	18			
Current		1,923,480		2,976,980
Deferred				5,021
		1,923,480	-	2,982,001
Net Income		4,488,119	(485,915)	15,925,762
Attributable to				
Equity Holders of the Parent		4,488,119	(485,915)	15,925,762
Minority interest		-	-	-
		4,488,119	(485,915)	15,925,762
EARNINGS PER SHARE	19	0.0234	(0.0027)	0.02

AGRINURTURE, INC. AND SUBSIDIARIES
(Formerly Mabuhay 2000 Enterprises, Inc.)
INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the Three Months Ended March 31, 2010
(With Comparative Figures for 2009 and 2008)

Amounts in Philippine Pesos

	Notes	2010	2009	2008
Cash Flows from Operating Activities				
Net Income		6,411,598	(485,915)	18,907,763
Adjustment for				
Depreciation and amortization	7	2,234,922	1,491,610	1,251,939
Provision for retirement benefit cost	14	35,000	34,971	11,657
Goodwill				(7,325)
Interest expense		1,503,495	3,044,755	2,924,290
Unrealized foreign exchange gain, net				(26,003)
Interest income			(42,744)	(9,065)
Operating income before working capital changes		10,185,016	4,042,677	23,053,256
Decrease (Increase) in				
Trade and other receivables		(44,419,565)	90,928,213	17,824,853
Inventories		(3,654,905)	3,040,316	(2,246,867)
Due from officers and employees		(498,700)	4,990,053	10,735,349
Advances to projects		(17,385,767)	(64,332,146)	(16,503,473)
Prepayments and other current assets		(2,604,565)	182,420	(358,022)
Increase (Decrease) in				
Trade and other payables		(21,280,151)	(33,273,532)	(39,278,766)
Income tax payable		1,923,479		-
Due to Stockholders		1,570,764		
Other current liabilities		14,032		13,763,599
Cash provided by (used in) operations		(76,150,364)	5,578,001	6,989,929
Interest paid		(1,503,495)	(3,044,755)	(2,924,290)
Interest received			42,744	9,065
Income taxes paid				(2,065,641)
		(1,503,495)	(3,002,011)	(4,980,866)
Net cash provided by (used in) operating activities		(77,653,859)	2,575,990	2,009,063
Cash Flows from Investing Activities				
Addition to property and equipment	7	(3,860,078)	(15,200,000)	(14,995,944)
Increase in other non-current assets		(200,867)	(3,982,636)	(3,148,931)
Net cash in investing activities		(4,060,945)	(19,182,636)	(18,144,875)
Cash Flows from Financing Activities				
Net proceeds from borrowings		20,266,167	(35,163,743)	36,626,431
Repayment on borrowings				(2,133,942)
Payment of dividends		(1,155,842)		
Change in minority interest				(17,095,885)
Proceeds from issuance of share capital (deposits)			75,087,228	839,999
Net cash provided by financing activities		19,110,325	39,923,485	18,236,603
Net Increase in Cash		(62,604,480)	23,316,839	2,100,791
Cash, January 1		152,186,392	8,397,521	11,064,779
Cash, March 31		89,581,912	31,714,360	13,165,570

AgriNurture, Inc. and Subsidiaries
NOTES TO FINANCIAL STATEMENTS
(With Comparative Figures)

Note 1 - CORPORATE INFORMATION

AgriNurture, Inc. (ANI), formerly Mabuhay 2000 Enterprises, Inc., was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on February 4, 1997 primarily to engage in buying, selling, distributing, marketing, at wholesale only insofar as may be permitted by law, all kinds of goods, commodities, wares and merchandise of every kind and description and to enter into contracts for the export, import, purchase, acquisition, sale at wholesale only and other disposition for its own account as principal or its representative, upon consignment of all kinds of goods, wares, merchandise or products, whether natural or artificial.

On January 19, 2009, ANI was listed at National Stock Exchange of Australia; a stock exchange set up and managed specifically to cater for the listing of Small to Medium Enterprises. Also, On May 25, 2009, ANI joined the prestigious list of companies in Philippine Stock Exchange.

On March 30, 2010, the SEC approved the change in the Parent Company's primary purpose to engage in corporate farming, in all its branches for the planting, growing, cultivating and producing of crops, plants and fruit bearing trees, of all kinds and in connection to engage in agri-tourism and other pleasurable pursuits for the enjoyments and appreciation of mother nature and ecology and to engage in the establishment, operation and maintenance of equipment, structures and facilities for the preservation and storage of foods, grains and supplies, like cold storage and refrigeration plants.

The details of incorporation and principal activities of the subsidiaries are as follows:

Name of Subsidiaries	Percentage of Ownership	Date of SEC Registration	Registered Address	Principal Activity
First Class Agriculture Corporation (FCAC)	100% directly owned	June 11, 2002	Provincial Road, Barangay Arenas, Arayat, Pampanga	Trading agricultural goods
Fresh and Green Harvest Agricultural Company, Inc. (FG)	100% directly owned through FCAC	June 4, 2004	Block 176 Lot 5 Phase 3 Guagua Ext B, Madapdap Resettlement Center, Mabalacat, Pampanga	Trading agricultural goods
M2000 IMEX Company, Inc. (IMEX)	100% directly owned	May 11, 2005	No. 54 National Road, Dampol II-A Pulilan, Bulacan, Philippines	Manufacturing - pre-operating stage in 2007 - operating in 2008
Lucky Fruit and Vegetable Products, Inc. (LFVPI)	100% directly owned	May 11, 2005	No. 35 Gasan Street, Masambong, SFDM,	Trading agricultural goods
Best Choice Harvest Agriculture Corp. (BCHAC)	100% directly owned through FCAC		Sitio Gugu, Brgy Sta. Rosa, Conception, Tarlac	Management of Farming Activities
Fruitilicious Company, Inc. (FCI)	90% directly owned	February 11, 2008	Balongis, Balulang, Cagayan de Oro City Misamis Oriental	Processing, manufacturing and trading of frozen agricultural products - non-operating in 2008 and 2009

The Parent Company's registered address is at National Road, Pulilan, Bulacan, Philippines and its principal place of business is at No. 35 Gasan Street, Masambong, SFDM, Quezon City. In 2009, the Parent Company changed its registered address to Unit 30A Washington Tower, Asiaworld Complex, Marina, Parañaque City.

Status of Operations

Business Acquisitions

On January 1, 2007, FCAC declared ownership over 100% of the paid-up capital of FG and BCHAC by virtue of the fulfillment of the conditions for unconditional transfer of ownership from FG's and BCHAC's incorporators to FCAC as embodied in various Deeds of Trusts previously executed by and between parties concerned. Furthermore, the Parent Company and FCAC (the Parties) executed a Memorandum of Understanding (MOU), which provides for the firm commitment of the former to acquire 100% equity interest on FCAC and all its subsidiaries. The following are the significant mutual covenants agreed upon by the Parties:

- The negotiation and execution of mutually acceptable Memorandum of Agreement (MOA) for the acquisition by ANI of the shares of FCAC's shareholders on or before December 31, 2007;

- Upon signing of the MOU, all decisions in the ordinary course of business of FCAC shall only be made with the consent of the Parent Company; and
- As consideration for the foregoing, the Parent Company shall pay FCAC and its shareholders goodwill money upon execution of the MOA.

Moreover, the Parent Company and the shareholders of FCAC executed a voting trust agreement (VTA), whereby the shareholders holding 60% of the total issued and outstanding shares of stock of FCAC assigned their voting rights to the Parent Company. By virtue of the VTA, the Parent Company obtained control over the financial and operating policies of the FCAC and its subsidiaries.

On December 28, 2007, the Parent Company, FCAC and its major shareholder, executed the aforementioned MOA, which provides for the agreed consideration in acquiring the 100% equity interest in FCAC. The following are the significant mutual covenants agreed upon by the parties:

- The Parent Company shall acquire 100% equity interest in FCAC including all of the latter's 100% owned subsidiaries, FG and BCHAC for a consideration of P56.5 million;
- The said consideration shall be paid as follows: (a) P50 million cash for the net worth of FCAC, receipt of which was already acknowledged and: (b) the remaining P6.5 million shall be paid on or before March 31, 2008; and
- Upon payment of P50 million, FCAC shall assign in favor of the Parent Company, 60% equity interest in FCAC including all its subsidiaries. The remaining 40% shall be assigned to the Parent Company upon payment of the remaining P6.5 million.

In March 2008, the Parent Company has fully paid for the remaining 40% equity interest in FCAC and all its subsidiaries. On January 2, 2008, the majority of the stockholders and BOD of the Parent Company resolved to approve the following amendments to the Parent Company's Articles of Incorporation:

- a) Change in the registered business name from Mabuhay 2000 Enterprises, Inc. to its current name; and
- b) Change in the registered business address of the Parent Company, from 7th Floor Escolta, Twin Tower, Escolta St., Binondo, Manila City to its current address.

The SEC approved the aforementioned amendments on February 15, 2008.

Compliance Listing of Securities with a Foreign Stock Exchange - the National Stock Exchange of Australia (NSX)

On January 09, 2009, the Parent Company's application for compliance listing with the NSX has been approved with its secondary common shares being listed and have subsequently been traded.

Initial Listing of Securities with a Local Stock Exchange – the Philippine Stock Exchange, Inc (PSE).

On April 15, 2009, the PSE has approved the application of the Parent Company's initial listing by way of introduction of 178,536,602 common shares, with par value of one peso: P1 per share, in the Second Board of the PSE at an opening price based on the closing price of the Parent Company's shares in the NSX on the trading day immediately preceding the listing date subject to the compliance by the Parent Company with all the requirements set forth by the PSE.

Listing by way of introduction is a listing process that does not involve a public offering of the Parent Company's securities.

Approval of consolidated financial statements

The accompanying consolidated financial statements of the Group for the period ended December 31, 2009 were authorized and approved for issuance by the BOD on April 15, 2010.

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING AND FINANCIAL REPORTING POLICIES

Basis of Preparation

Basis of Measurement

The accompanying consolidated financial statements of the Group have been prepared on historical cost basis.

Statement of Compliance

The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs) issued by the Financial Reporting Standards Council. PFRSs consist of the following:

- (a) PFRSs - correspond to International Financial Reporting Standards;
- (b) Philippine Accounting Standards (PASs) – correspond to International Accounting Standards; and
- (c) Philippine Interpretations to existing standards – correspond to Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretation Committee of the International Accounting Standards Board; these include interpretation developed by the Philippine Interpretation Committee.

Functional and Presentation Currency

The accompanying consolidated financial statements are presented in Philippine peso, which is also the functional currency of the Group.

Changes in accounting policies

- a) New standards, interpretations and amendments to the existing standards effective in 2009.

The following new standards, amendments and interpretations to existing standards have been applied and are relevant in these financial statements effective 2009.

- *Amendments to PFRS 7: Improving Disclosures about Financial Instruments*
The amendments improve the disclosure requirements about fair value measurements and reinforce existing principles for disclosures about the liquidity risk associated with financial instruments. It introduces a three-level hierarchy for fair value measurements disclosures and requires entities to provide additional disclosures about the relative reliability of fair value measurements. These disclosures help to improve comparability between entities about the effect of fair value measurements.
- *PAS 1 (Revised 2007), Presentation of Financial Statement*
The changes made required information in financial statements to be aggregated on the basis of shared characteristics and introduce a statement of comprehensive income. This enables readers to analyze changes in a company's equity resulting from transactions with owners in their capacity as owners (such as dividends and share repurchases) separately from 'non-owner' changes (such as transactions with third parties).
- *PFRS 8, Operating Segment (effective January 1, 2009), PFRS 8 replaces PAS 14.*
This new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes.

The company adopted the following new standards, interpretations and amendments to existing Standards which are effective in 2009, but does not have any material effect on the financial statements:

- *PAS 23 (revised), Borrowing Costs*
- *Amendments to PFRS 1 and PAS 27: Cost of and investment in a Subsidiary, Jointly Controlled Entity or Associate*
- *Amendments to PFRS 2: Vesting Conditions and Cancellations*
- *Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation*
- *PFRS 3 (revised), Business Combinations*
- *PAS 27 (revised), Consolidated and Separate Financial Statements*
- *PFRS 1 (revised), First-time Adoption of Philippine Financial Reporting Standards*
- *Amendments to PAS 39: Eligible Hedged Items*
- *Improvements to PFRSs (2008)*
- *Philippine Interpretation IFRIC-15: Agreements for the Construction of Real Estate*
- *Philippine Interpretation IFRIC-17: Distribution of Non-cash Assets to Owners*

b) New standards, interpretations and amendments to the existing standards not yet effective.

The following new standards, amendments and interpretations to existing standards, which have not been applied in these financial statements:

- *PFRS for SMEs* (Effective for annual periods beginning on or after January 1, 2010)
- *Amendments to PFRS 2: Company Cash-settled Share-based Payment Transactions* (effective for annual periods beginning on or after January 1, 2010)
- *Improvements to PFRS 2009* (effective for annual periods beginning on or after January 1, 2010)
- *Interpretation IFRIC-15: Agreements for the Construction of Real Estate* (effective for annual periods beginning on or after January 1, 2012)

Based on management's initial assessment, the adoption of these standards, interpretations and amendments to existing standards would not have any material impact on the Company's financial statement.

Basis of Consolidation

The consolidated financial statements of the Group comprise the separate financial statements of the Parent Company and its subsidiaries. The financial statements of the subsidiaries are prepared in the same reporting period as the Parent Company, using consistent accounting policies.

All intra-company balances, receivables and payables, income and expenses, profits and losses resulting from intra-company transactions that are recognized in the separate financial statements of the Parent Company and its subsidiaries are eliminated in full.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Parent Company obtains control, and continue to be consolidated until the date that such control ceases.

Minority interest represents the portion of profit or loss and net assets of FCA, FG, BCHAC, IMEX and LFPVI in 2007 not held by the Group and are presented separately in the consolidated statements of income and within the equity section in the consolidated balance sheets and consolidated statements of changes in equity, separately from the Parent Company's shareholders' equity.

Minority interest represents the interest in a subsidiary, which is not owned, directly or indirectly through subsidiaries, by the Group. If losses applicable to the minority interest in a subsidiary exceed the minority interest's equity in the subsidiary, the excess, and any further losses applicable to the minority interest, are charged against the majority interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses.

If the subsidiary subsequently reports profits, the majority interest is allocated all such profits until the minority interest's share of losses previously absorbed by the majority interest has been recovered.

Business Combinations

Acquisitions of subsidiaries are accounted for using the purchase method. The cost of an acquisition is measured at fair values of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date, irrespective of the extent of any minority interest.

Any excess of the cost of the business combination over the Group's interest in the net fair values of the identifiable assets, liabilities and contingent liabilities represents goodwill, and recognized in the consolidated balance sheets on the date of acquisition. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

On the other hand, any excess of the Parent Company's interest in the fair values of the identifiable assets and liabilities and contingent liabilities acquired over the cost of business combination is recognized in the consolidated statements of income on the date of acquisition.

Acquisition of the minority interests are accounted for using the parent entity extension method, whereby the difference between the consideration and the book value of the share on net assets acquired is recognized as goodwill in the consolidated statements of comprehensive income.

Transfers of assets between commonly controlled entities are accounted for under historical cost accounting.

Group's Adoption of New Accounting Standards, Interpretations and Amendments to Existing Standards

The accounting policies adopted in the preparation of the Group's consolidated financial statements have been consistently applied in all periods presented except as stated below.

Accounting Standard, Amendments and Interpretations Effective in 2008

The Group adopted the following relevant standard, amendment and interpretations to existing standards, which are effective for annual periods beginning on or after January 1, 2008, that are relevant to its operations:

- PAS 39 and PFRS 7 (Amendment), *Reclassification of Financial Assets*

The amendments to the standards, which became effective on July 1, 2008, permitted an entity to reclassify non-derivative financial assets (other than those designated at FVPL by the entity upon initial recognition) out of the FVPL in particular circumstances. The amendment also permitted an entity to transfer from AFS category to the loans and receivables category a financial asset that would have met the definition of loans and receivables (if the financial assets had not been designated as available for sale), if the entity has the intention and ability to hold that financial asset for the foreseeable future. In the event

of reclassification, additional disclosures are required under PFRS 7. The Group assessed that the amendment to these standards have no impact on its consolidated financial statements since it has not reclassified its financial assets to a new category.

- Philippine Interpretation IFRIC 14, PAS 19, *The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction*

This interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under PAS 19, *Employee Benefits*. This interpretation does not have any impact on the financial position of the Group, as it does not have any pension asset.

The following interpretations to existing standards are effective in 2008, but are not yet relevant to the Group's operations:

- Philippine Interpretation IFRIC 11, *PFRS 2 – Group and Treasury Share Transactions*

This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme by the entity even if (a) the entity chooses or is required to buy those equity instruments (e.g. treasury shares) from another party, or (b) the shareholders of the entity provide the equity instruments needed. It also provides guidance on how subsidiaries, in their separate financial statements, account for such schemes when their employees receive rights to the equity instrument of the parent. The Group currently does not have any stock option plan and therefore, this interpretation have no impact to its consolidated financial statements.

- Philippine Interpretation IFRIC 12, *Service Concession Agreements*

This interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession agreements. The Group does not have any service concession arrangements and hence this interpretation have no impact to the Group's consolidated financial statements.

Standards and Amendment to Existing Standards Subsequent to 2008

The Group is also aware of the following standards and amendments to existing standards that have been approved and are effective subsequent to 2008:

- Philippine Financial Reporting Standard (PFRS) 8, *Operating Segments* (Effective January 1, 2009)

The Standard applies to listed companies. It will replace PAS 14, Segment Reporting and requires an entity to adopt the 'management approach' to reporting on the financial performance of its operating segments. Generally, the information to be reported would be what management uses internally for evaluating segment performance and deciding how to allocate resources to operating segments. The Group is currently assessing the impact of this standard in its consolidated financial statements and will adopt once it becomes effective.

- Amendments to PFRS 7, *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments* (Effective January 1, 2009)

The amendments improve the disclosure requirements about fair value measurements and reinforce existing principles for disclosures about the liquidity risk associated with financial instruments. It introduces a three-level hierarchy for fair value measurement disclosures and requires entities to provide additional disclosures about the relative reliability of fair value measurements. These disclosures will help to improve comparability between entities about the effects of fair value measurements. As of the

reporting date, the management could not yet measure the likely effect of adopting these amendments in the future.

- Revised PFRS 3, Business Combinations, and PAS 27, *Consolidated and Separate Financial Statements* (Effective July 1, 2009)

The changes to PFRSs have been relatively small. The revised PFRS 3 reinforces the existing PFRS 3 model but remedies problems that have emerged in its application. Management believes that this interpretation would not have any significant impact in the Group's financial statements when it becomes effective in the future.

- Amendments to PFRS 2, Share-based Payment – *Vesting Conditions and Cancellations* (Effective January 1, 2009)

The amendments deal with two matters. They clarify that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. They also specify that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group is currently assessing the impact of this standard in its consolidated financial statements and will adopt once it becomes effective.

- Revised Version of PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards* (Effective July 1, 2009)

The revised version has an improved structure but does not contain any technical changes and therefore, would not have any effect on the Group when it becomes effective. It was restructured to make it easier for the reader to understand and to allow it to accommodate more easily any future changes that might be necessary.

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards* and PAS 27, *Consolidated and Separate Financial Statements* (Effective January 1, 2009)

The amendments are relevant to first-time adopters of PFRS and thus, are not applicable to the Group. It will allow first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements; and it removes the definition of the cost method from IAS 27 and replacing it with a requirement to present dividends as income in the separate financial statements of the investor.

- Amendments to PAS 39, *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* (Effective for annual periods beginning on or after July 1, 2009)

The amendments provide additional guidance on what can be designated as a hedged item. It focused on developing application guidance to illustrate how the principles underlying hedge accounting should be applied in those situations. These amendments would most likely not affect the Group when it becomes effective as it does not usually enter into hedging activities.

- Amendments to PAS 32, *Financial Instruments: Presentation*, and PAS 1, *Presentation of Financial Statements (revised 2007) – Puttable Financial Instruments and Obligations Arising on Liquidation* (Effective January 1, 2009)

The amendments are intended to improve the accounting for particular types of financial instruments that have characteristics similar to ordinary or common shares but are at present classified as financial liabilities. The amendments to PAS 32 address this issue and provide that puttable financial instruments will be presented as equity only if all of the following criteria are met: the holder is entitled to a pro-rata share of the entity's net assets on liquidation; the instrument is in the class of instruments that is the most

subordinate and all instruments in that class have identical features; the instrument has no other characteristics that would meet the definition of a financial liability; and the total expected cash flows attributable to the instrument over its life are based substantially on the profit or loss, the change in the recognized net assets or the change in the fair value of the recognized and unrecognized net assets of the entity (excluding any effects of the instrument itself). Profit or loss or change in recognized net assets for this purpose is as measured in accordance with relevant PFRSs. Management believes that this interpretation would not have any significant impact in the Group's financial statements when it becomes effective since it has not issued any puttable financial instruments and obligations.

□ PAS 23 (Amendment), *Borrowing Cost* (Effective on January 1, 2009) – requires capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the Standard, the Group will adopt this as a prospective change. Accordingly, borrowing costs will be capitalized on qualifying assets with a commencement date after January 1, 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

□ Revised PAS 1, *Presentation of Financial Statements* (Effective January 1, 2009)

The changes made will require information in financial statements to be aggregated on the basis of shared characteristics and to introduce a statement of comprehensive income. This will enable readers to analyze changes in a Group's equity resulting from transactions with owners in their capacity as owners (such as dividends and share repurchases) separately from 'non-owner' changes (such as transactions with third parties). Management believes that such revision would most likely have no significant impact to the Group when it becomes effective.

□ Philippine Interpretation IFRIC-18, *Transfers of Assets from Customers* (Effective to transfers of assets from customers received on or after 1 July 2009)

The Interpretation is particularly relevant for the utility sector and therefore, would not have a significant impact on the Group when it becomes effective. The interpretation clarifies: the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset), the recognition of revenue; and the accounting for transfer of cash from customers.

□ Philippine Interpretation IFRIC-17, *Distributions of Non-cash Assets to Owners* (Effective for annual periods beginning on or after 1 July 2009)

It will standardize practice in the accounting treatment of distribution of non-cash assets to owners. The Interpretation clarifies that: a dividend payable should be recognized when the dividend is appropriately authorized and is no longer at the discretion of the entity; an entity should measure the dividend payable at the fair value of the net assets to be distributed; and an entity should recognize the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. Management believes that the Group is not yet in a financial position to distribute any asset to its owners.

□ Philippine Interpretation IFRIC-16, *Hedges of a Net Investment in a Foreign Operation* (Effective for annual periods beginning on or after October 1, 2008)

The Interpretation applies to an entity that hedges the foreign currency risk arising from its net investments in foreign operations and that apply hedge accounting in accordance with IAS 39. It does not apply to other types of hedge accounting. Management believes that this interpretation would not have any significant impact in the Group's financial statements when it becomes effective in the future.

□ Philippine Interpretation IFRIC -15, *Agreements for the Construction of Real Estate* (Effective January 1, 2012)

The Interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors and therefore, would most likely not have any impact on the Group when it becomes effective. It provides guidance on the recognition of revenue among real estate developers for sales of units, such as apartments or houses, 'off plan', i.e., before construction is complete. It also provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of IAS 11, *Construction Contracts*, or IAS 18, *Revenue*, and when revenue from the construction should be recognized.

The following principal and relevant accounting policies have been consistently applied:

Financial Instruments

Initial Recognition

Financial assets and financial liabilities are recognized in the consolidated balance sheets when the Group becomes a party to the contractual provisions of the instrument.

Financial instruments are recognized initially at fair value plus transaction costs except for those designated at fair value through profit and loss (FVPL).

Classification of Financial Instruments

The Group classifies its financial assets in the following categories: held-to-maturity (HTM) investments, available-for-sale (AFS) investments, financial assets at fair value through profit and loss (FVPL), and loans and receivables. Financial liabilities are classified as financial liabilities at FVPL and other liabilities. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. Management determines the classification of its financial assets and liabilities at initial recognition and, where allowed and appropriate, reevaluates such designation at every reporting date.

The Group does not have financial assets and liabilities designated as FVPL, HTM and AFS investments.

Determination of Fair Value

The fair value of financial instruments traded in active markets is based on their quoted market price or dealer price quotation (bid price for long positions and asking price for short positions). When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in the economic circumstances since the time of the transaction. If the financial instruments are not listed in an active market, the fair value is determined using appropriate valuation techniques which include recent arm's length market transactions, net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models, and other relevant valuation models.

Financial Assets

Financial Assets at FVPL

Financial assets at FVPL include financial assets held for trading and financial assets designated upon initial recognition as at FVPL. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognized in the statement of comprehensive income. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

The Company has no assets under this category.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are carried at cost or amortized cost, less impairment in value. Amortization is determined using the effective interest rate method. Gains and losses are recognized in consolidated statements of income when the loans and receivables are derecognized or impaired, as well as through amortization process. Unearned discount is recognized as income over the life of the loan using the effective interest rate method.

The Group's trade and other receivables, note receivables and due from related parties as shown and disclosed in Notes 4, 9 and 16 are included in this category.

HTM Investments

HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Company's management has the positive intention and ability to hold to maturity. Where the Company sells other than an insignificant amount of HTM investments, the entire category would be tainted and classified as AFS investments. After initial measurement, these investments are measured at amortized cost using the effective interest rate method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in the statements of income when the HTM investments are derecognized or impaired, as well as through the amortization process.

The Company has no investments classified under this category.

AFS Investments

AFS investments are non-derivative financial assets that are either designated in this category or are not classified in any of the other categories. AFS investments are carried at fair value in the statements of financial position. Changes in the fair value of such assets are reported in the "Unrealized gain (loss) on available-for-sale investments" in the statements of comprehensive income until the investment is derecognized or the investment is determined to be impaired.

On derecognition or impairment, the cumulative gain or loss previously reported in equity is transferred to the statements of comprehensive income. Interest earned on holding AFS investments are recognized in the statements of comprehensive income using the effective interest rate method.

The Company has no investments classified under this category.

Financial Liabilities

Financial liabilities at FVPL

Financial liabilities are classified in this category if these result from trading activities or derivative transactions that are not accounted for as accounting hedges, or when the Company elects to designate a financial liability under this category.

The Company has no designated financial liability at FVPL.

Other Financial Liabilities

This classification pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. Included in this category are the Group's trade and other

payables, notes payable, and due to related parties as shown and disclosed in Notes 8, 9 and 16. The financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest rate method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs.

Derecognition of Financial Assets and Liabilities

A financial asset, where applicable, part of a financial asset or part of a group of similar financial assets is derecognized when: a) the rights to receive cash flows from the asset have expired; b) 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 c) the Group has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset 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.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statements of income.

Impairment of Financial Assets

Assessment of Impairment

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. It assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. 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 determination of impairment losses for financial assets is inherently subjective because it requires material estimates, including the amount and timing of expected recoverable future cash flows. These estimates may change significantly from time to time, depending on available information.

Evidence of Impairment

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

Impairment of Assets Carried at Amortized Cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of loss shall be recognized in the consolidated statements of income.

Reversal of Impairment Loss

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

Classification of Financial Instruments between Debt and Equity

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest relating to a financial instrument or a component that is a financial liability is reported as expense.

A financial instrument is classified as debt if it provides for a contractual obligation to: (a) deliver cash or other financial assets to another entity; or (b) exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or (c) satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

Offsetting of Financial Instruments

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

Inventories

Inventories are valued at the lower of cost and net realizable value (NRV). Cost is determined using standard cost, which approximates actual cost determined on the first-in, first-out basis.

NRV is the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated costs necessary to make the sale.

The Group directly writes off inventory obsolescence due to spoilage, damage, and bad quality.

Property and Equipment

Property and equipment, except land, are initially measured at cost less any subsequent accumulated depreciation, amortization and any impairment in value. The initial cost of property and equipment consists of its purchase price, import duties, taxes and directly attributable costs of bringing the asset to its working condition for its intended use. Land is stated at cost less any impairment in value.

Subsequent expenditures relating to an item of property and equipment that have already been recognized are added to the carrying amount of the asset when the expenditure have resulted in an increase in future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. Expenditures for repairs and maintenance are charged to operations during the period in which these are incurred.

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation, amortization and any impairment loss are removed from the accounts and any resulting gain or loss is credited or charged to current operations.

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

<u>Property and Equipment</u>	<u>Estimated Life</u>
Building	15 years
Store and warehouse equipment	3 - 5 years
Delivery and transportation equipment	3 - 12 years
and equipment	3 - 12 years
Office furniture and fixtures	3 - 12 years
Leasehold improvements	5 years

Leasehold improvements are amortized over the term of the lease or estimated useful lives of the improvements, whichever is shorter.

Construction in-progress represents leasehold improvements under construction and is stated at cost. This includes cost of construction, renovation, and other direct costs. Construction in-progress is not depreciated until the relevant assets are completed and put into operational use.

The useful lives, residual value and depreciation and amortization methods are reviewed periodically to ensure that these are consistent with the expected pattern of economic benefits from items of property and equipment. The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the consolidated statements of income.

Impairment of Non-Financial Assets

At each financial reporting date, the Group reviews the carrying amounts of non-current assets to determine whether there is any indication of impairment. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to its recoverable amount. The recoverable amount of the assets is the greater of net selling price and value in use. 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. Any impairment loss is recognized in the consolidated statements of income.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the carrying amount of the asset does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. A reversal of impairment loss is credited to current operations.

Provisions and Contingencies

The Group recognizes a provision if a present obligation (legal and constructive) has arisen as a result of a past event, payment is probable and the amount can be reliably measured. The amount recognized is the best estimate of the expenditure required to settle the present obligation at balance sheet date, that is, the amount the Group would rationally pay to settle the obligation to a third party.

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

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The additional specific recognition criteria for each type of revenue is as follows:

Sale of goods

Sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, which is normally upon delivery of goods and acceptance by the customers.

Interest income

Interest income is recognized as the interest accrue, taking into account the effective yield on the asset.

Operating Leases

Leases which do not transfer to the Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in the consolidated statements of income on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

Pension Benefits Cost

The amount recognized as net pension liability is the net of the present value of the defined benefit obligation at the balance sheet date minus the fair value at the balance sheet date, of plan assets out of which the obligations are to be settled directly. The Group's pension benefits costs are actuarially determined using the projected unit credit actuarial valuation method. This method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. Upon introduction of a new plan or improvement of an existing plan, past service costs are recognized on a straight-line basis over the average period until the amended benefits become vested. To the extent that the benefits are already vested, past service cost is immediately expensed. Actuarial gains or losses are recognized as income or expense when the cumulative unrecognized actuarial gains and losses at the end of the previous reporting year exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date.

These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan. Gains or losses on the curtailment or settlement of pension benefits are recognized when the curtailment or settlement occurs.

Borrowing Costs

Borrowing costs of ordinary loans from local banks and financing institutions are recognized in the consolidated statements of income in the period in which these are incurred.

Foreign Exchange Transactions

Transactions in foreign currencies are recorded in Philippine peso based on the exchange rates prevailing at the date in which the transaction took place. Foreign currency denominated monetary assets and liabilities of the Group are translated using the prevailing exchange rate as of balance sheet date. Gains or losses arising from these transactions and translation are credited or charged to income for the period.

Related Parties

Parties are considered related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Individuals, associates or companies that directly or indirectly control or are controlled or under common control are considered related parties.

Income Taxes

Current income tax

Current income tax assets and liabilities for the current and the prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute for the amount are those that are substantively enacted at the financial reporting date.

Deferred income tax

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

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

The carrying amount of deferred income tax assets is reviewed at each financial reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the financial reporting date.

Earnings Per Share (EPS)

Basic EPS is computed by dividing net income by the weighted average number of common shares outstanding during the year, with retroactive adjustments for any stock dividends declared.

Business Segments

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Under two main segments, Fresh and Processed sub-segments are the Fresh Export, Local Fresh, Processed and the Farming segments. Segment information will be incorporated in the succeeding financial reports.

Events After the Financial Reporting Date

Post year-end events up to the date of the auditor's report that provide additional information about the Group's position at financial reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements, when material.

Note 3 – SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the consolidated financial statements in compliance with PFRS requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The judgments, estimates and assumptions are based on management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from these estimates and assumptions used. The effect of any change in estimates will be reflected in the consolidated financial statements when these become reasonably determinable.

Determination of functional currency

Based on the economic substance of the underlying circumstances relevant to the Group, the functional currency is determined to be the Philippine peso. It is the currency that mainly influences the sale of goods and expenses of the Group.

Classification of financial instruments

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

Determination of fair value of financial instruments

The Group carries certain financial assets and liabilities at fair value, which requires use of accounting estimates and judgment. While significant components of fair value measurement were determined using verifiable objective evidence, the amount of changes in fair value would differ if the Group utilized different valuation methodologies and assumptions. Any changes in fair value of these financial assets and liabilities would affect profit and loss and equity.

The fair value of financial assets and liabilities as of March 31, 2010 and December 31, 2009 amounted to P482,396,950 and P500,083,165 respectively, as shown in Note 20.

The fair value of financial assets and liabilities as of March 31, 2010 and December 31, 2008 amounted to P223,558,628 and P220,315,525, respectively, as shown in Note 20.

Estimation of useful lives and residual value of property and equipment

The Group estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically 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.

In addition, estimation of the useful lives of property and equipment is based on collective assessment

of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property and equipment would increase recorded operating expenses and decrease non-current assets.

The carrying value of property and equipment amounted to P147,386,665 and P145,761,509 and P133,380,179 as of March 31, 2010, as of December 31, 2009 and 2008, respectively.

Asset impairment

The Group assesses at each financial position date whether a financial asset or group of financial assets is impaired. It assesses whether objective evidence of impairment exist individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. 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 determination of impairment losses for financial assets is inherently subjective because it requires material estimates, including the amount and timing of expected recoverable future cash flows. These estimates may change significantly from time to time, depending on available information.

Further, the Group also determines whether its property and equipment is impaired at least annually. In determining the fair value of property and equipment, the Group relies on the determination of an independent firm of appraisers, which involves significant assumptions and estimates. Future events could cause management to conclude that these assets are impaired. Any resulting impairment loss could have a material adverse impact on the Group's financial condition and results of operations. While management believes that the assumptions made are appropriate and reasonable, significant changes in assumptions may materially affect the assessment of recoverable values and may lead to future additional impairment charges under PFRS.

No impairment losses were recognized on property and equipment in 2008 and 2007.

Evidence of impairment

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the group would not otherwise, indications that the borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrower or issuers in the group, or economic conditions that correlate with defaults in the group.

Impairment of assets carried at amortized cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of loss is measured as the difference between the assets's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of loss shall be recognized in the consolidated statements of comprehensive income.

Estimation of liability for retirement benefits

The determination of the Group's obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 14 and include, among others, discount rate and salary increase rate.

The preparation of the interim consolidated financial statements in compliance with PFRS requires management to make judgments, estimates and assumptions that affect the amounts reported in the interim consolidated financial statements and accompanying notes. The judgments, estimates and assumptions are based on management's evaluation of relevant facts and circumstances as of the date of the interim consolidated financial statements. Actual results could differ from these estimates and assumptions used. The effect of any change in estimates will be reflected in the interim consolidated financial statements when these become reasonably determinable.

Recognition of deferred income tax assets

The Group reviews its deferred income tax assets at each balance sheet date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Total deferred income tax assets amounted to P225,777, P945,608 and P225,777 as of March 31, 2010, March 31, 2009 and December 31, 2009, respectively.

Note 4 – TRADE AND OTHER RECEIVABLES

This account consists of:

Particulars	March 31, 2010	December 31, 2009
Trade receivables	232,165,391.70	P169,830,939
Other receivables	<u>51,450,981.30</u>	<u>69,365,869</u>
Total	<u>283,616,373.00</u>	<u>P239,196,808</u>

Trade receivables are normally due within 15-30 days and do not bear any interest. All trade receivables are subject to credit risk exposure.

Other receivables include due from officers and employees.

The Group did not provide for any allowance for doubtful accounts since it believes that the entire amount is collectible within the normal credit period.

Note 5 - Notes Receivable

A secured notes receivable assigned by a major stockholder to the Parent company on December 27, 2007 which is based on the consideration given by the stockholder to the seller.

Note 6 – INVENTORIES

This account consists of:

At cost:

	March 31, 2010	December 31, 2009
Finished Goods	39,624,074.48	
Raw Materials		4,938,387.00
Vegetables and Fruits	1,529,918.52	20,418,251.00
Packaging Materials and Supplies	250,388.00	12,392,840.00
Total	41,404,383.00	37,749,478.00

Note 7 – PROPERTY AND EQUIPMENT, Net

The carrying amount of the Group's property and equipment, net are as follows:

At March 31, 2010 (Insert)

Construction in-Progress

This pertains to the capitalizable expenses incurred by a Subsidiary amounting to P8,345,498, P7,276,170, and P7,731,811 as of March 31, 2010, March 31, 2009 and December 31, 2009, respectively, in connection with the future transfer and use of a real property. The real property is collateral to indebtedness by a third party to the Parent which was subsequently foreclosed.

Management reviewed the carrying value of its property and equipment as of March 31, 2009 and December 31, 2008 for any impairment. Based on its evaluation, there were no indications that these assets are impaired.

Note 8 – TRADE AND OTHER PAYABLES

This account consists of:

<i>Particulars</i>	<i>3/31/2010</i>	<i>12/31/2009</i>
<i>Trade payables</i>	<i>24,859,858</i>	<i>48,427,510</i>
<i>Customers' deposits</i>	<i>1,258,300</i>	<i>1,258,300</i>
<i>Accrued expenses</i>	<i>2,000,000</i>	<i>712,499</i>
<i>Other payables</i>		<i>-</i>
<i>Total</i>	<i>29,118,158</i>	<i>50,398,309</i>

Trade payables are normally due within 30 days and do not bear any interest.

Note 9 – NOTES PAYABLE

This account pertains to the outstanding balances of loans obtained by the Group, from various banks and a financing institution, for its working capital requirements. The details of which are as follows:

	March 31, 2010	December 31, 2009
Banco De Oro (BDO)		
Bank of Commerce		
Mega International Commercial Bank (MICB)		
Bank of the Philippine Islands		
Metropolitan Bank and Trust Co. (MBTC)		
Land Bank of the Philippines (LBP)		

Rizal Commercial Banking Corporation (RCBC)		
Philippine National Bank (PNB)		
Orix Metro Leasing Finance Corporation (ORIX)		
Current Portion	189,687,179	166,734,989
Non Current Portion		-
Total	189,687,179	166,734,989

The pertinent provisions of the loan agreements with the lenders are as follows:

Lenders	Annual Interest Rate			Term	Security
	2010	2009	2008		
BDO*	6.75%-7%	6.75%-7.75%	7.75-8.5%	1 to 6 months	Surerityship agreement and line of credit
MICB	7.5%-8%	7%-7.5%	7.5%	3 years	Real estate mortgage of FCAC's land and building
BPI	5.5%	5.50%	9.25%-10.5%	6 months/5 years	Unsecured
MBTC		9.00%	9.00%	5 months	Unsecured
LBP*		7.1%	8.75%	6 months	Unsecured
RCBC		9%	8%-9.5%	1 month/3 years	Transportation equipment of Parent Company
EWBC*		9%	8.68%	1 month	Unsecured
ORIX**		9%	Floating rate	3 years	Machinery and equipment of Parent Company
PNB	7.10%-7.75%			6 months	Unsecured
BOC***	6.00%			1 to 6 months	Unsecured

* Subject to quarterly repricing at the prevailing market interest rates.

** Equivalent to Philippine Dealing Exchange Rate of 9.16% or an average one-year rate plus 7.63% per annum, and is subject to annual re-pricing.

***Foreign currency denominated loans.

Interest expense charged to finance cost amounted to P1.503 M and P3.04 M for three (3) months ended March 31, 2010 and 2009 respectively.

Note 10 – EQUITY

Increase in Authorized Capital Stock of the Parent Company

The capital stock of the Parent Company consists only of common shares. All shares are equally eligible to receive dividends and repayment of capital and each share is entitled to one vote at the shareholders' meeting.

In 2007, the stockholders made the following payments and assignments of assets to the Parent Company for their future subscription of shares of stock.

- a.) A secured notes receivable assigned by a major stockholder to the Parent Company on December 27, 2007 amounting to P50 million which is based on the consideration given by the stockholder to the seller;

b.) Machinery and equipment amounting to P20.98 million; and

c.) Cash payment of P24.91 million.

On January 21, 2008, the SEC approved the increase in authorized capital stock of the Parent Company from P10 million to P300 million and a decrease in the par value per share from P100 to P1 per share. In addition, the Parent Company was also authorized to issue 9.90 million shares out of the increase in the authorized capital stock in favor of the existing shareholders.

Subsequent to the SEC approval on the increase in authorized capital stock of the Parent Company, the subscribed and paid common shares of stock in 2007 were accordingly issued to the stockholders, including the transfer of the deposits made which amounted to P95,898,440.

As disclosed in Note 1, the Parent Company's applications for listings of its securities with the National Stock Exchanges of Australia (NSX) and the Philippine Stocks Exchange, Inc. (PSE) have been approved on January 9, 2009 and April 15, 2009, respectively.

Total shares of stocks that were subscribed, paid and issued as of March 31, 2010, 2009 and 2008 are detailed below:

	March 31, 2010, 2009 and 2008	
	Number of Shares	Amount
Authorized- P1 par value per share in 2008 and P100 par value per share in 2007	300,000,000	300,000,000
Issued and Outstanding 3/31/08		P35,785,439
Issued and Outstanding 3/31/09		P178,536,602
Issued and Outstanding 3/31/10		P191,868,445

Appropriation of Retained Earnings of FCAC

FCAC appropriated accumulated retained earnings of P5,000,000 each, in 2004 and 2005 for expansion projects which was reverted as unappropriated retained earnings in 2007, upon accomplishment of the said project. On March 10, 2008, the BOD of FCAC approved the appropriation of accumulated retained earnings amounting to P19,000,000 for future dividend declaration.

Note 11 – COST OF SALES

The breakdown of this account for the quarter ended March 31, is as follows:

COST OF SALES	2010	2009
Inventories, January 1	P37,749,478	P34,150,232
Purchases, Direct Labor and Overhead	222,036,822	135,831,749

Total goods available for sale	259,786,300	169,981,981
Inventories, March 31	(41,404,383)	(31,109,916)
Cost of goods sold	218,381,917	138,872,065

These inventories are normal operating requirements.

Note 12 – OPERATING EXPENSES

Operating Expenses		First quarter		
	note	3/31/2009	3/31/2008	3/31/2007
Deliveries		7,507,885	7,875,557	6,929,814
Contracted services		3,957,397	4,153,285	
Salaries, wages and other employee cost		3,296,872	7,666,272	10,741,525
Advertising and promotions		1,229,738	2,490,078	2,005,796
Professional fees		522,834	1,250,200	573,217
Depreciation and amortization		1,491,610	1,251,939	552,214
Transportation and travel		318,127	976,272	673,245
Maintenance and upkeep		1,500,000		
Repairs and maintenance		504,412	749,473	759,479
Communication, light and water		1,312,761	750,217	478,097
Taxes and licenses		475,000	498,899	378,119
Bank charges		32,156		
Representation and entertainment		380,548	426,384	603,107
Brokerage and handling fees		33,337	231,604	17,424
SSS, Philhealth and Pagibig contributions		467,067	494,237	614,309
Office supplies		187,837	162,835	468,660
Security services		312,958	162,000	163,867
Rent		99,075	330,925	522,850
Retirement benefit cost		34,971	11,657	10,693
Miscellaneous		3,361,359	1,609,700	1,420,956
		27,025,946	31,091,534	26,913,372

Note 13 – LEASES

The Parent Company leases a parcel of land with improvements thereon, where its warehouse and office buildings are located. The lease is for a period of 4 years and 5 months from August 1, 2005 up to December 31, 2009 at a monthly rental of P0.05 million. The lease includes an annual 10% escalation clause at the lessor's discretion.

Further, FCAC leases a marketing office located at No. 1240 Unit 16A 2nd floor ANPN Plaza, North EDSA, Balintawak, Quezon City. The lease contract is for a period of one year which expired on September 5, 2008.

Note 14 – RETIREMENT BENEFITS

The Group does not have a formal retirement plan yet for its employees. The most recent actuarial valuation of the Parent Company's retirement plan was performed by an independent actuary on October 9, 2007. Actuarial valuations are made every two years to update the retirement benefit costs and the amount of contributions.

No changes in the net pension liabilities are recognized in the interim consolidated balance sheets as of report date pending the results of the new actuarial valuation scheduled in the second half of the year. The

amount reported in the annual financial statements as of and for the year December 31, 2009 was used as a basis in the computation of this expense.

Interim report as of March 31, 2010 showed:

	March 31, 2009	March 31, 2009	December 31, 2008
Net pension liability, beginning	733,215	P525,294	P383,296
Retirement expense	35,000	34,971	141,998
Net pension liability, ending	P768,215	P560,265	P525,294

Reconciliation of the present value of defined benefit obligations is as follows:

	December 31, 2009	March 31, 2009	December 31, 2008
Present value of obligation, beginning	863,006	863,006	737,506
Current service cost	86,402	10,566	44,374
Interest cost	103,561	20,282	81,126
Actuarial (gain) loss	(664,283)	-	-
Present value of obligation, ending	388,686	893,854	863,006

Total expense recognized in the interim consolidated statements of income in respect of this defined benefit plan is as follows:

	December 31, 2009	March 31, 2009	December 31, 2008
Current service cost	86,402	10,565	44,374
Interest cost	103,561	20,281	81,126
Net Actuarial loss	17,958	4,125	16,498
Present value of obligation, ending	207,921	34,971	141,998

The amount included in the present value of obligation arising from the Parent Company is obligations in respect of its defined retirement benefit plan are as follows:

	December 31, 2009	March 31, 2009	December 31, 2008
Present value of defined benefit obligations	388,685	893,854	863,006
Unrecognized actuarial gains	344,529	(333,589)	(337,712)
	733,214	560,265	525,294

The key actuarial assumptions used as at the interim balance sheet dates are:

	December 31, 2009	March 31, 2009	December 31, 2008
Discount rate	10.9%	11%	11%
Salary increase rate	3%	5%	5%

Average remaining working life of plan members

14 years

16 years

17 year

Note 15 – OTHER INCOME (EXPENSES), Net

The breakdown of the account is as follows:

	2010	2009
Realized foreign exchange gain (loss), net		
Rental income		
Interest income		42,744.00
Other income		
Interest expense and bank charges	(1,503,495.00)	(3,044,755.00)
	<u>(1,503,495.00)</u>	<u>(3,002,011.00)</u>

Other income for pertains to income from commission on sale of other products and other miscellaneous income.

Note 16– RELATED PARTY TRANSACTIONS

Below are the details of all intra-company balances, receivables and payables, income and expenses, profits and losses resulting from intra-company transactions that are recognized in the separate interim financial statements of the Parent Company and its subsidiaries, which are eliminated in full in the accompanying interim consolidated financial statements.

a. Credit Accommodations of Parent Company and FCA

On December 27, 2007, the Parent Company was granted credit accommodations by Banco de Oro – EPCI, Inc. amounting to P10.0 million and 15.0 million as of March 31, 2008 and December 31, 2007, respectively, which is to be shared between the Parent Company and its subsidiary, FCA. In relation to this, the Parent Company and FCA have entered into a suretyship agreement with the bank to act as sureties of each other. The Parent Company, being a surety, jointly and severally and irrevocably. The suretyship agreement is still in effect to date;

(i) Secures the due and full payment and performance of the obligations incurred by FCA; and

(ii) Undertakes with the bank that upon nonpayment or nonperformance of FCA when the obligation falls due, it shall, without need for any notice, demand or any other act or deed, immediately be liable and pay as if the principal obligor. As a surety, the Parent Company also pledged, as security for the full and due payment and performance of the obligation, all its moneys and other properties. As of 2008, FCA has entered into several loan agreements with BDO, resulting to the recognition of an outstanding liability amounting to P80 million and P74.75 million as of March 31, 2008 and December 31, 2007, respectively. These loans are secured by the assignment of receivables of FCA and the suretyship agreement mentioned above.

b. Due from and to Officers and Employees

These represent advances made in carrying out the day-to-day operations of the Group and are subject to liquidation upon utilization.

c. Due from and to Stockholders

Due from and to stockholders are interest-free and settlement can be made through cash payment, offsetting or assignment of stockholders' assets to the Group. The Group has not recorded any impairment of receivables from stockholders as of March 31, 2009 and 2008. The assessment is undertaken through examining the financial position of the stockholders.

d. Compensation of key management personnel

Compensation of key management personnel of the Group amounts to P3.25 million, P3.25 million and P2.4 million in 2009, 2008 and 2007, respectively.

Note 18 – INCOME TAXES

a.) The Group's deferred tax assets are as follows:

	March 31, 2010	December 31, 2009
Deferred tax assets	225,777.00	225,777.00
Deductible temporary difference on:		
Pension liability	158,633.00	158,633.00
NOLCO	67,144.00	67,144.00
	<u>225,777.00</u>	<u>225,777.00</u>

b.) The reconciliation between the provision for income tax computed at statutory rate and the Group's actual income tax expense is shown below:

	2010	2009
Income before income tax	P6,411,598	P(485,915)
Provision for income tax computed at the		
Statutory provision of 30% for 2010		
and 2009 and 32% for 2008	1,923,480	
Tax effect of:		
Interest expenses subject to final tax		
Tax arbitrage		
Other nondeductible expenses		
Provision for income tax	1,923,480	nil

c.) New Tax Laws

R.A. 9337

Republic Act (RA) No. 9337 was enacted into law amending various provisions in the existing 1997 National Internal Revenue Code. Among the reforms introduced by the said RA, which became effective on November 1, 2005, are as follows:

- i. Increase in the corporate income tax rate from 32% to 35% with a reduction thereof to 30% beginning January 1, 2009;
- ii. Grant of authority to the Philippine President to increase the 10% VAT rate to 12%, effective January 1, 2006, subject to compliance with certain economic conditions. VAT rate increased to 12% effective February 1, 2006;
- iii. Revised invoicing and reporting requirements for VAT;
- iv. Expanded scope of transactions subject to VAT; and
- v. Provided thresholds and limitations on the amounts of VAT credits that can be claimed.

R.R. 12-2007

Under National Internal Revenue Code, MCIT of 2% of the gross income as of the end of the taxable year is imposed beginning the fourth taxable year immediately following the registration of the Parent Company and subsidiaries with the Bureau of Internal Revenue (BIR). The MCIT puts a floor limit to the income tax payable. In the event the income tax due computed under the regular tax rate of 35% on net taxable income becomes lower than 2% of gross income, the MCIT of 2% of gross income shall be the income tax due. Any excess of the MCIT over the regular income tax shall be carried forward and credited against the regular income tax for the three immediately succeeding taxable years. On October 17, 2007, however, the BIR issued Revenue Regulation (RR) No. 12-2007 which amends certain provisions of RR No. 9-98 relative to the due date within which to pay the MCIT imposed on domestic and resident foreign corporations pursuant to Sections 27(E) and 28(A) of the Tax Code, as amended. Accordingly, MCIT shall be computed at the time of filing the quarterly corporate income tax so that if MCIT is higher than the quarterly normal income tax, then MCIT becomes the tax due for the quarter. In the payment of said quarterly MCIT, any excess MCIT from the previous year/s shall not be allowed to be credited. However, any expanded withholding tax, quarterly income tax payments under the normal income tax and MCIT paid in the previous taxable quarter/s are allowed to be applied against the quarterly MCIT due.

The quarterly MCIT paid in the quarterly ITR shall be credited against the normal income tax at year-end should the normal income tax due becomes higher than the computed annual MCIT. However, should the computed annual MCIT due becomes higher than the annual normal income tax due, only the quarterly MCIT payments of the current taxable quarters, the quarterly normal income tax payments in the quarters of the current taxable year, the expanded withholding taxes in the current year and excess expanded withholding taxes in the prior year may be credited against the annual MCIT due. Any excess MCIT from the previous year/s shall not be allowed to be credited as this can only be applied against normal income tax.

NOTE 19 – EARNINGS PER SHARE

Basic EPS is computed as follows:

	2010	2009
Net income attributable to equity holders of the Parent Company	P4,488,119	P(485,915.00)
Weighted average number of shares	191,868,445	178,536,602.00
	P0.0234	P(0.003)

Note 20– FINANCIAL AND CAPITAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's business activities are exposed to a variety of financial risks, which include credit risk, liquidity risk and market risk. Management ensures that it has sound policies and strategies in place to minimize potential adverse effects of these risks on the Group's financial performance.

Risk Management Structure

The BOD is mainly responsible for the overall risk management approach and for the approval of risk strategies and principles of the Group. It has also the overall responsibility for the development of risk strategies, principles, frameworks, policies and limits. It establishes a forum of discussion of the Group's approach to risk issues in order to make relevant decisions.

Financial Risk Management Objectives and Policies

The Group is exposed to a variety of financial risks, which result from its operating, investing and financing activities. The Group's principal financial instruments comprise of cash, trade receivables and payables, notes receivables and payables and due from and to related parties. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as other receivables and payables, which arise directly from operations.

Financial risk management of the Group is coordinated by the management of the subsidiaries with its Parent Company. Group policies and guidelines cover credit risk, liquidity risk and market risk. The objective of financial risk management is to contain, where appropriate, exposures in these financial risks to limit any negative impact on the Group's results of operations and financial position. The Group actively measures, monitors and manages its financial risk exposures by various functions pursuant to the segregation of duties principles.

Credit risk

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit risk arises from deposits with banks, as well as credit exposure to receivables from third and related parties.

The Group trades only with recognized, creditworthy third parties. FCAC and FG are exposed to credit risk due to dependence on one customer. However, this sole customer of FCAC and FG is credit worthy and has already established good business relationships. Also, it is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

For banks, the Group has maintained its business relationships with accredited banks, which are considered in the industry as universal banks. The receivables from stockholders are accordingly collected in accordance with the group's credit policy.

The Group's exposure to credit risk arises from default of other counterparties, with a maximum exposure equal to the carrying amounts as follows:

	March 31, 2010		December 31, 2009
Cash	89,581,912		152,186,392
Loans and Receivables			
Trade and other receivable	283,616,373		239,196,808
Note Receivable	58,000,000		58,000,000
Due from Stockholders	51,198,665		50,699,965
Total	482,396,950		500,083,165

Aging analyses of financial assets are as follows:

Credit risk	March 31, 2010					
		Neither				
		impaired nor				
		past due on				
		the reporting				
		date	Past due but not yet impaired			Impaired
			61 to 90	61 to 90	91 to 120	More than
	Carrying amount	Current	days	days	Days	120 days
Cash	89,581,912	89,581,912				89,581,912
Trade and other receivables (Note 4)	283,616,373	283,616,373				283,616,373
Notes Receivables (Note 5)	58,000,000	58,000,000				58,000,000
Due from Stockholders (Note 16)	51,198,665	51,198,665				51,198,665
	482,396,950	482,396,950				482,396,950
Credit risk	March 31, 2009					
		Neither				
		impaired nor				
		past due on				
		the reporting				
		date	Past due but not yet impaired			Impaired
			61 to 90	61 to 90	91 to 120	More than
	Carrying amount	Current	days	days	Days	120 days
Cash	31,714,359	31,714,359	-	-	-	-
Trade and other receivables (Note 4)	129,533,422	103,828,900	25,704,522			-
Notes Receivables (Note 5)	58,000,000	58,000,000	-	-	-	-
Due from Stockholders (Note 16)	192,872	192,872	-		-	-
	219,440,653	193,736,131	25,704,522			-

The credit quality of the Group's financial assets is evaluated using internal credit rating. Financial assets are considered as high grade if the counterparties are not expected to default in settling their obligations, thus credit risk exposure is minimal. These counterparties include banks, customers and related parties who pay on or before due date.

Liquidity risk

Liquidity risk refers to the risk that the Group will not be able to meet its financial obligations as they fall due and because of lack of funding to finance its growth and capital expenditures and working capital requirements.

The Group's approach to manage its liquidity profile are: (a) to ensure that adequate funding is available at all times; (b) to meet commitments as they arise without incurring unnecessary costs; and (c) to be able to access funding when needed. In addition, the Group continually supports the short term funding and financing requirements of the subsidiaries. The following summarizes the maturity profile of the Group's non-derivative financial liabilities based on contractual undiscounted payments:

	March 31, 2010				
		Less than 3	3 to 12	1 to 5	
	On Demand	Months	months	YEARS	Total
Due to stockholders (Note 16)	4,752,991				4,752,991
Trade and other payables (Note 8)	29,118,158				29,118,158
Notes payable					0
Notes payable (Note 9)	189,687,479				189,687,479
	223,558,628				223,558,628
	March 31, 2009				
		Less than 3	3 to 12	1 to 5	
	On Demand	Months	months	years	Total
Due to stockholders (Note 16)	14,652,684				14,652,684
Trade and other payables (Note 8)		56,451,022		-	56,451,422
Notes payable (Note 9)		91,077,640	85,000,000	15,680,391	191,758,031
	14,652,684	147,528,662	85,000,000	15,680,391	262,861,737

Market risks

Market risk refers to the risk that changes in market prices, such as interest rates, foreign exchange rates and other market prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. The Group is subject to various market risks, including risks from changes in interest rates and foreign currency exchange rates. There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

Note 21 – FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

The carrying values and fair values of financial assets and financial liabilities are presented below:

	March 31, 2010	December 31, 2009
Financial assets		
Cash in bank	P89,581,912.00	P152,186,392.00
Trade and other receivables(Note 4)	283,616,373.00	239,196,808.00

Notes receivables (Note 5)	58,000,000.00	58,000,000.00
Due from stockholders (Note 16)	51,198,665.00	50,699,965.00
	P482,396,950.00	P500,083,165.00

Financial liabilities

Trade and other payables (Note 8)	P29,118,158.00	P50,398,309.00
Notes payables (Note 9)	189,687,479.00	166,734,989.00
Due to stockholders (Note 16)	4,752,991.00	3,182,227.00
	P223,558,628.00	P220,315,525.00

The carrying amounts of cash, trade and other receivables, due from and to related parties, trade and other payables, and short-term notes payable approximate their fair values due to the relatively short-term maturity of the financial instruments. The fair value of the long-term notes payable is based on the discounted value of the expected future cash flows using the applicable rate.

NOTE 22 – BUSINESS ACQUISITIONS

The acquisitions of the following subsidiaries have been accounted for using the purchase method of accounting:

Acquirer	Acquiree	Date Acquired	% of Ownership
Parent Company	FCAC	January 1, 2007	100%
FCAC	FG and BCHAC	January 1, 2007	100%
Parent Company	FCAC	January 1, 2008	100%
Parent Company	IMEX	January 1, 2008	100%

Accordingly, the 2008 interim consolidated financial statements include the results of operations of FCAC and FG for the six-month ended from their acquisition on January 1, 2007 to March 31, 2009.

The Parent Company's acquisition on LFPVI and IMEX in 2005, resulted to the recognition of goodwill amounting to P33,175. The additional investment made by the Parent Company to IMEX in 2007, gave rise to the recognition of additional goodwill of P12,600. On January 1, 2008, the Parent Company acquired the remaining 60% equity interest in IMEX, which resulted to the recognition of additional goodwill of P7,450. The fair value of the assets and liabilities of IMEX as of the date of acquisition were as follows:

	Recognized of Acquisition	Carrying Value
Cash	P12,500.00	P12,500.00
Advances to related parties	586,794.00	586,794.00
Prepayments and other current assets	250,388.00	250,388.00
CIP	5,489,311.00	5,489,311.00
Advances from related parties	(6,633,369.00)	(6,633,369.00)
Fair value of net identifiable assets and liab.	(P294,376.00)	(P294,376.00)

On January 1, 2007, the Parent Company acquired 60% equity interest in FCAC, FG and BCHAC (Note 1). The fair value of the assets and liabilities of which as of the date of acquisition were as follows:

	Recognized on Acquisition	Carrying Value
Cash	P 50,016.00	P50,016.00
Trade and other receivables	40,032,838.00	40,032,838.00
Advantage to related parties	27,869,590.00	27,869,590.00
Inventories	1,000,187.00	1,000,187.00
Prepayment and other current assets	937,760.00	937,760.00
Property and equipment, net	10,092,267.00	10,092,267
Goodwill from acquisition of FG	2,150,409.00	2,150,409
Trade and other payables	(23,533,840.00)	(23,533,840.00)
Advances from related parties	(12,002,770.00)	(12,002,770.00)
Loans payable	(9,767,912.00)	(9,767,912.00)
Fair value of net identifiable assets and liabilities	36,828,545.00	36,828,545.00
Percentage of ownership	60%	-
	22,097,127.00	36,828,545.00
Cost of acquisition		
Interest on the net identifiable assets and liabilities		50,004,838.00
		22,097,127.00
Goodwill		27,907,711.00
*Includes transaction cost of P4,838		

Furthermore, the Parent Company acquired the remaining 40% equity interest in FCAC, FG and BCHAC. The fair value of the assets and liabilities of which as of the date of acquisition were as follows:

	Recognized on Acquisition	Carrying Value
Cash	P10,459,336.00	P10,459,336.00
Trade and other receivables	60,484,218.00	60,484,218.00
Advantage to related parties	114,679,582.00	114,679,582.00
Inventories	10,842,754.00	10,842,754.00
Prepayment and other current assets	156,811.00	156,811.00
Property and equipment, net	12,397,710.00	12,397,710.00

Goodwill from acquisition of FG	2,150,409.00	2,150,409.00
Trade and other payables	(50,964,449.00)	(50,964,449.00)
Advances from related parties	(30,212,562.00)	(30,212,562.00)
Loans payable	(87,101,556.00)	(87,101,556.00)
Income tax payables	(138,983.00)	(138,983.00)
Fair value of net identifiable assets and liabilities	42,753,270.00	42,753,270.00
Percentage of ownership	40%	-
	17,101,308.00	42,753,270.00
Cost of acquisition		
Interest on the net identifiable assets and liabilities		6,500,000.00
		17,101,308.00
Goodwill (Excess of the net identifiable assets and liabilities over the acquisition cost)		(10,601,308.00)

NOTE 23 – MEMORANDUM OF AGREEMENT

On February 15, 2007, a Memorandum of Agreement was executed by and among the Parent Company, Education Parks for Sustainable Development Foundation, a non-stock and non-profit organization, Bamnan Aeta Tribal Association (B.A.T.A.), and National Commission for Indigenous People (NCIP), a national government agency. The agreement provides for the establishment of the joint governing council for the B.A.T.A. sustainable development project. To hasten and facilitate a more effective and binding interaction among the four parties, a Joint Governing Council (JGC) shall be established to be represented as follows: two to be named by B.A.T.A.; two by the Foundation; two by the Parent Company; and one by the NCIP. This JGC shall evaluate, approve and provide guidance and direction in the management of the various component projects, which shall be introduced and implemented by various participating entities, which are willing to partake of the different development activities relevant to the improvement of the socio-economic conditions of the indigenous people.

NOTE 26 – BUSINESS SEGMENTS

For management purposes, the Group is organized into two main segments – fresh and processed foods. The operating businesses are organized and managed separately according to the nature of the products produced and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. The fresh foods segment is primarily engaged in the trading and distribution of fresh fruits and vegetables on a wholesale basis. The processed foods products segment is engaged in the manufacturing and processing of fruit products.

Segment Assets and Liabilities

Segment assets include all operating assets used by a segment and consist principally of operating cash, receivables, inventories and property and equipment, net of provisions. Segment liabilities include all

operating liabilities and consist principally of accounts, and other payables and accrued liabilities. Segment assets and liabilities do not include deferred income taxes.

Inter-segment Transactions

Segment revenues, expenses and performance include sales and purchases between business segments. Transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties. Such transfers are eliminated in consolidation.

NOTE 25 – LISTING WITH THE NATIONAL STOCK EXCHANGE OF AUSTRALIA (NSX) AND THE PHILIPPINE STOCK EXCHANGE (PSE)

As disclosed in Note 1, the Parent Company's applications for listings of its securities with the National Stock Exchange of Australia (NSX) and the Philippine Stock Exchange, Inc. (PSE) have been approved on January 9, 2009 and April 15, 2009, respectively.

Immediately following compliance with the requirements set forth by the latter, the SEC shall declare registration of the following:

	Number of Shares	Amount
a) Common shares		
To be listed by way of introduction in the Second Board of the PSE on behalf of the existing stockholders		
Issued and outstanding	184,672,404	P184,672,404.00
Allotted to Parent Company's directors, employees and consultants under a stock purchase plan	<u>10,631,467</u>	<u>10,631,467.00</u>
	195,303,871	195,303,871.00
To be offered to the public within one (1) year from the subject listing, by way of primary share offer from the Parent Company's unissued authorized share capital	84,696,129	84,696,129.00
Underlying common shares	<u>20,000,000</u>	<u>20,000,000.00</u>
	<u>300,000,000</u>	<u>P300,000,000.00</u>

b) Warrants

Relating to 20,000,000 underlying common shares P20,000,000

The Company shall list the warrants in the PSE within one (1) year from the listing by way of introduction of the underlying common shares at an issue price of P0.00 per warrant, with expiry date at the end of the 5th year from issuance and listing, and a strike price of P20 per share at the time of exercise and a conversion ratio of 1 warrant to 1 common share.

NOTE 26 – FINANCIAL STATEMENT PRESENTATION

Certain 2008 and 2007 consolidated financial statement data were reclassified to conform to the current year's financial statement presentation.

(Insert)

Note 7 – PROPERTY AND EQUIPMENT, NET

The details of the Group's property and equipment, net are as follows:

March 31, 2010

	Land	Building	Store and warehouse equipment	Delivery and transportation Equipment	Machinery and equipment	Office furniture and fixtures	Leasehold improvements	Construction in Progress	Total
Cost									
At January 1, 2010	33,917,000	56,765,227	6,286,537	10,951,203	39,332,947	4,091,066	2,732,113	7,731,811	161,807,904
Additions			14,750		913,882	755,510	1,562,248	613,687	3,860,078
Adjustments									
At March 31, 2010	33,917,000	56,765,227	6,301,287	10,951,203	40,246,829	4,846,576	4,294,361	8,345,498	165,667,982
Accumulated depreciation									
At January 1, 2010		1,859,079	3,388,230	4,213,889	1,480,468	2,549,963	2,554,786	-	16,046,395
Provisions		283,715	231,190	344,393	726,850	225,339	423,435		2,234,922
At March 31, 2010	-	2,142,794	3,619,420	4,558,282	2,207,318	2,775,302	2,978,221	-	18,281,317
Net Book Value									
March 31, 2010	33,917,000	54,622,433	2,681,867	6,392,921	38,039,511	2,071,274	1,316,140	8,345,498	147,386,665

Portion of the Group's land, building and machinery and equipment were used to secure loans obtained by the Group.

December 31, 2009

The carrying amount of the Group's property and equipment, net are as follows:

Carrying amount at cost	Land	Building	Store and Warehouse Equipment	Delivery and Transportation Equipment	Machinery and Equipment	Office Furniture and Fixtures	Leasehold Improvement	Construction in Progress	Total
At January 1, 2009	20,917,000	56,689,891	5,536,275	10,321,557	36,687,505	3,761,348	2,804,830	7,276,170	143,994,576
Additions			5,000,000		10,000,000	200,000			15,200,000
Disposals									
At March 31, 2009	20,917,000	56,689,891	10,536,275	10,321,557	46,687,505	3,961,348	2,804,830	7,276,170	159,194,576
Accumulated Depreciation and amortization									
At January 1, 2009		587,969	2,267,323	2,967,756	802,557	1,639,987	2,348,805		10,614,397
Depreciation and amortization Expense		472,416	138,406.88	258,038.93	458,593.81	94,033.70	70,120.75		1,491,610
Disposals									
At March 31, 2009	-	1,060,385	2,405,730	3,225,795	1,261,151	1,734,021	2,418,926	-	12,106,007
Net Book Value									
At March 31, 2009	20,917,000	55,629,506	8,130,545	7,095,762	45,426,354	2,227,327	385,904	7,276,170	147,088,569
Book Value Net At									
December 31, 2008	20,917,000	56,101,922	3,268,952	7,353,801	35,884,948	2,121,361	456,025	7,276,170	133,380,179

Portion of the Group's land, building and machinery and equipment were used to secure loans obtained by the group

Agrinurture

#35 Gasan St., Masambong SFD, Quezon City. (02) 413-5566

EXHIBITS

INTERIM FINANCIAL STATEMENTS
