



AgriNurture, Inc.

54 National Road, Dampol 2nd A, Pulilan, Bulacan 3005, Philippines

Telefax: (632)299.8305 • www.ani.com.ph

Manila Office: (632) 879.3256 / (632) 879.3135 • Fax (632) 879.3215

14 March 2011

**THE DISCLOSURE DEPARTMENT
PHILIPPINE STOCK EXCHANGE, INC**

Philippine Stock Exchange Plaza
Ayala Triangle, Avala Ave.
Makati City, Metro Manila

Attention : **MS. JANET A. ENCARNACION**
Head, Disclosure Department

MS. CHRISTINA MARIE C. FORTES
Senior Specialist, Disclosure Department

Subject : **Audited Financial Statements for 2010 of AgriNurture,
Inc.**

Dear Madam:

AgriNurture, Inc. (ANI) would like to present to the public through the Exchange the audited financial statement for 2010.

With our best regards.

Very truly yours,

KENNETH S. TAN
CIO/Compliance Officer

AGRINURTURE, INC. AND ITS SUBSIDIARIES

Financial Statements
For the years ended December 31, 2010 and 2009

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
AgriNurture Inc. and its Subsidiaries
Unit 30A Washington Tower, Asiaworld Complex,
Marina, Paranaque City

We have audited the accompanying consolidated financial statements of **AgriNurture Inc. and its Subsidiaries**, which comprise the consolidated statements of financial position as of December 31, 2010 and 2009, and the consolidated statements of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for each of the three years in the period ended December 31, 2010, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards for Small and Medium-sized Entities. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of AgriNurture Inc. and its subsidiaries as of December 31, 2010 and 2009, and its financial performance and its cash flows for each of the three years in the period ended in accordance with Philippine Financial Reporting Standards.

ALBA ROMEO & Co.



ANTONIO V. CRUZ
CPA Certificate No. 17482
PTR No. 2699184 January 31, 2011, Makati City
TIN No. 141-791-733
SEC Accreditation No. 0038-AR-2 (Individual)
SEC Accreditation No. 0007-FR-2 (Firm)
BIR Accreditation AN 08-001682-3-2009
PRC/BOA Accreditation No. 005

Makati City, Philippines
March 11, 2011



AGRINURTURE, INC. AND ITS SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2010 AND 2009**

	Note	2010	2009
ASSETS			
Current assets			
Cash on hand and in banks	6	P73,776,402	P152,186,392
Trade and other receivables, net	7	294,329,640	238,969,099
Note receivable	17	58,000,000	58,000,000
Advances to related parties	16	41,756,983	50,699,965
Inventories	8	77,536,576	37,749,478
Biological assets	9	454,859,523	-
Advances to projects	10	64,255,063	53,412,422
Prepayments and other current assets		26,746,611	13,151,138
Total current assets		<u>1,091,260,798</u>	<u>604,168,994</u>
Non-current assets			
Property and equipment, net	11	521,670,051	145,761,509
Deferred tax assets	24	1,249,848	225,777
Intangibles	12	809,521,267	19,717,223
Other non-current assets		541,651	31,501
Total non-current assets		<u>1,332,982,817</u>	<u>165,735,510</u>
Total assets		<u>P2,424,243,615</u>	<u>P769,904,504</u>
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	13	P53,698,096	P50,398,309
Interest-bearing loans and borrowings	14	519,442,200	166,734,989
Advances from related parties	16	215,208	3,182,227
Income tax payable	24	12,329,700	2,553,993
Other current liabilities		976,789	-
Total current liabilities		<u>586,661,993</u>	<u>222,869,518</u>
Non-current Liabilities			
Pension liability	15	950,645	733,215
Deferred tax liability	24	251,438,343	-
Total non-current liabilities		<u>252,388,988</u>	<u>733,215</u>
Total liabilities		<u>P839,050,981</u>	<u>P223,602,733</u>
Equity			
Equity attributable to equity holders of the parent			
Share capital	17	217,993,119	191,868,445
Share premium	18	675,502,960	306,832,220
Revaluation surplus	18	545,170,826	-
Retained earnings			
Appropriated	18	19,000,000	19,000,000
Unappropriated	18	119,958,011	28,601,106
		<u>1,577,624,916</u>	<u>546,301,771</u>
Non-controlling interest		7,567,718	-
Total equity		<u>1,585,192,634</u>	<u>546,301,771</u>
Total liabilities and equity		<u>P2,424,243,615</u>	<u>P769,904,504</u>

(The notes on pages 1 to 45 are an integral part of these financial statements.)

AGRINURTURE, INC. AND ITS SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008**

	Note	2010	2009	2008
Sales		P1,585,011,759	P1,017,682,209	P777,964,691
Cost of sales	20	<u>(1,314,304,215)</u>	<u>(865,966,271)</u>	<u>(643,940,906)</u>
Gross profit		270,707,544	151,715,938	134,023,785
Operating expenses	21	<u>(176,493,028)</u>	<u>(95,043,892)</u>	<u>(110,166,155)</u>
Other operating income (expenses), net	22	<u>57,166,068</u>	<u>209,490</u>	<u>3,487,189</u>
Profit from operations		151,380,584	56,881,536	27,344,819
Finance income		95,032	3,837,569	36,620
Finance costs	14	<u>(16,687,620)</u>	<u>(20,340,457)</u>	<u>(13,880,886)</u>
Profit before tax		134,787,996	40,378,648	13,500,553
Provision for income tax	24	<u>(41,236,531)</u>	<u>(4,688,680)</u>	<u>(4,763,434)</u>
Profit for the year		93,551,465	35,689,968	8,737,119
Other comprehensive income		-	-	-
Gain on change of fair value of trademark	12	<u>545,170,823</u>	<u>-</u>	<u>-</u>
Total comprehensive income		<u>P638,722,288</u>	<u>P35,689,968</u>	<u>P8,737,119</u>
Profit for the year attributable to :				
Equity holders of parent		P90,813,545	P35,689,968	P8,737,119
Non-controlling interest		<u>2,737,920</u>	<u>-</u>	<u>-</u>
		<u>P93,551,465</u>	<u>P35,689,968</u>	<u>P8,737,119</u>
Total comprehensive income for the year attributable to :				
Equity holders of parent		P635,984,368	P35,689,968	P8,737,119
Non-controlling interest		<u>2,737,920</u>	<u>-</u>	<u>-</u>
		<u>P638,722,288</u>	<u>P35,689,968</u>	<u>P8,737,119</u>
Earnings per share	19	<u>P0.45</u>	<u>P0.19</u>	<u>P0.06</u>

(The notes on pages 1 to 45 are an integral part of these financial statements.)

AGRINURTURE, INC. AND ITS SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31 2010, 2009 AND 2008**

	Share capital (Note 17)	Deposits for future subscriptions	Share premium (Note 18)	Revaluation surplus (Notes 12 and 18)	Retained earnings (Note 18)		Total equity attributable to equity holders of the parent	Non- controlling interest	Total
					Appropriated	Unappropriated			
At January 1, 2008	P10,000,000	P95,898,440	P-	P-	P-	P3,562,842	P109,461,282	P17,095,885	P126,557,167
Issuance of common shares	72,638,162	-	-	-	-	-	72,638,162	-	72,638,162
Transfer of deposits for future stocks subscriptions to share capital	95,898,440	(95,898,440)	-	-	-	-	-	-	-
Acquisition of remaining equity shares of FCAC	-	-	-	-	-	-	-	(17,095,885)	(17,095,885)
Appropriation for future dividends	-	-	-	-	19,000,000	(19,000,000)	-	-	-
Total comprehensive income	-	-	-	-	-	8,737,119	8,737,119	-	8,737,119
At December 31, 2008	178,536,602	-	-	-	19,000,000	(6,700,039)	190,836,563	-	190,836,563
Prior period adjustments	-	-	-	-	-	(368,423)	(368,423)	-	(368,423)
Issuance of common shares	13,331,843	-	306,832,220	-	-	-	320,164,063	-	320,164,063
Total comprehensive income	-	-	-	-	-	35,689,967	35,689,967	-	35,689,967
At December 31, 2009	191,868,445	-	306,832,220	-	19,000,000	28,621,505	546,322,170	-	546,322,170
Prior period adjustment	-	-	-	-	-	522,961	522,961	-	522,961
Issuance of common shares	26,124,674	-	368,670,740	-	-	-	394,795,414	-	394,795,414
Revaluation of trademark (Note 12)	-	-	-	545,170,823	-	-	545,170,823	-	545,170,823
Investment of non-controlling interest	-	-	-	-	-	-	-	4,829,801	4,829,801
Total comprehensive income	-	-	-	-	-	90,813,545	90,813,545	2,737,920	93,551,465
At December 31, 2010	P217,993,119	P-	P675,502,960	P545,170,823	P19,000,000	P119,958,011	P1,577,624,913	P7,567,721	P1,585,192,634

(The notes on pages 1 to 45 are an integral part of these financial statements.)

AGRINURTURE, INC. AND ITS SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CASH FLOW
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008**

	Notes	2010	2009	2008
Cash flows from operating activities				
Profit before tax		P134,787,995	P40,378,647	P13,500,553
Adjustments for:				
Depreciation and amortization	11,12	17,969,124	5,431,999	4,295,220
Pension expense	15	217,429	207,921	141,998
Prior period adjustment		522,961	(368,423)	-
Bad debts expense	7	3,215,517	-	-
Goodwill		-	-	10,593,983
Gain on change of fair value of biological assets	9	(131,945,846)	-	-
Finance cost	14	16,687,620	20,340,457	13,880,886
Finance income		(95,032)	(3,837,569)	(36,620)
Operating profit before working capital changes		<u>41,359,768</u>	<u>62,153,032</u>	<u>42,376,020</u>
Decrease (increase) in:				
Trade and other receivables		25,351,629	(18,735,175)	(132,552,417)
Notes receivable		-	-	(8,000,000)
Inventories		48,499,171	(3,599,246)	(17,827,058)
Advances to related parties		8,942,982	(45,517,040)	76,266,456
Advances to projects		(333,756,318)	(21,414,654)	(22,830,327)
Prepayments and other current assets		(13,595,473)	(5,806,261)	(4,207,733)
Increase (decrease) in:				
Trade and other payables		(166,579,116)	(39,326,745)	19,050,336
Advances from related parties		(2,967,019)	(11,470,457)	(2,788,946)
Other current liabilities		976,788	-	-
Cash used in operations		<u>(391,767,588)</u>	<u>(83,716,546)</u>	<u>(50,513,669)</u>
Finance cost paid	14	(16,687,620)	(20,340,457)	(13,880,886)
Finance income received		95,032	3,837,569	36,620
Income taxes paid	24	(14,209,024)	(2,048,605)	(5,595,963)
Net cash used in operating activities		<u>(422,569,200)</u>	<u>(102,268,039)</u>	<u>(69,953,898)</u>
Cash flows from investing activities				
Increase in investment in subsidiaries		(9,144,016)	-	(17,095,885)
Acquisition of property and equipment		(355,921,170)	(17,813,327)	(92,338,017)
Acquisition of intangibles		(598,079)	-	-
Increase in other non-current assets		(510,150)	3,892,961	(3,186,349)
Net cash used in investing activities		<u>(366,173,415)</u>	<u>(13,920,366)</u>	<u>(112,620,251)</u>
Cash flows from financing activities				
Proceeds from loans	14	519,442,200	(15,680,391)	109,402,671
Repayments on loans		(166,734,989)	(44,506,396)	(2,133,942)
Proceeds from issuance of share capital	17	357,625,414	320,164,063	72,638,162
Net cash provided by financing activities		<u>710,332,625</u>	<u>259,977,276</u>	<u>179,906,891</u>
Net increase(decrease) in cash		(78,409,990)	143,788,871	(2,667,258)
Cash on hand and in banks				
January 1		152,186,392	8,397,521	11,064,779
December 31		<u>P73,776,402</u>	<u>P152,186,392</u>	<u>P8,397,521</u>

(The notes on pages 1 to 45 are an integral part of these financial statements.)

AGRINURTURE, INC. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE 1 - CORPORATE INFORMATION

AgriNurture, Inc. (the Parent Company) and its subsidiaries (collectively referred herein as the Group) were incorporated under the laws of the Republic of the Philippines.

The Parent Company was registered with the Securities and Exchange Commission (SEC) per Registration No. 0199701848 on February 4, 1997 to carry on the business of manufacturing, producing, growing, 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 all kinds of contracts for the export, import, purchase, acquisition, sale at wholesale only and other disposition for its own account as principal or in representative capacity as manufacturer's representative, upon consignment of all kinds of goods, wares, merchandise or products, whether natural or artificial.

On March 30, 2009, 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, conservation and storage of foods, grains and supplies, like cold storage and refrigeration plants.

The Parent Company's registered business address is at Unit 30A Washington Tower, Asiaworld Complex, Marina, Paranaque City. The Parent Company's principal place of business is at 54 National Road Dampol 2A, Pulilan, Bulacan.

The principal subsidiaries of the Parent Company, all of which have been included in these consolidated financial statements, are as follows:

	Country of Incorporation	Principal Activity	Percentage of Ownership	
			2010	2009
First Class Agriculture Corporation (FCAC)	Philippines	Trading (Agricultural goods)	100%	100%
M2000 IMEX Company, Inc. (IMEX)	Philippines	Manufacturing and export	100%	100%
Hansung Agro Products Corporation (HAPC)	Philippines	Processing (Agricultural goods)	100%	100%
Best Choice Harvest Agricultural Corp. (BCHAC) ¹	Philippines	Farm management	100%	100%
Fresh and Green Harvest Agricultural Company, Inc. (FG) ¹	Philippines	Trading (Agricultural goods)	100%	100%
Lucky Fruit & Vegetable Products, Inc. (LFVPI)	Philippines	Trading (Agricultural goods)	100%	100%
Fruitilicious Incorporated (FI)	Philippines	Manufacturing/processing/trading frozen agricultural products	90%	90%
Xiamen Waintaixing Trading Corp. (WTX)	China	Trading (Agricultural goods)	51%	-
Sunshine Supplies International Co., Ltd (SSIC)	China	Trading (Agricultural goods)	51%	-
Qualis Logistics and Transport Services Inc. (QLTS)	Philippines	Logistics	51%	-
Farmville Farming Co., Inc. (FFCI)	Philippines	Trading (Agricultural goods)	51%	-
Ocean Biochemistry Technology Research, Inc. (OBT) ²	Philippines	Farm management	51%	51%
Fresh and Green Palawan Agriventure, Inc. (FGP) ³	Philippines	Farm management	51%	51%

¹ Indirectly owned through FCAC

² Indirectly owned through Imex

³ Indirectly owned through FG

Status of operation

On January 2, 2008, the majority of the stockholders and Board of Directors (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.

On October 11, 2010, the Parent Company's BOD approved the execution of the Memoranda of Agreement pertaining to the Company's acquisition of 51% of Sunshine Supplies Int'l Company Ltd. (SSIC) and Xiamen Waintaixing Trading Corporation (WTC). Under these agreements, in exchange for fifty-one percent (51%) equity ownership of SSIC and WTC, ANI shall pay, on installment, 5,100 shares of SSIC for US\$1 million and 255,000 shares WTC for US\$1.5 million.

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 Chess Depository Instruments 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 years ended December 31, 2010 and 2009 were authorized and approved for issuance by the BOD on March 11, 2010.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING AND FINANCIAL REPORTING POLICIES

2.1 Basis of preparation

Basis of measurement

The consolidated financial statements of the Group have been prepared on historical cost basis except for biological assets that have been measured at fair value less estimated point of sale costs and trademark measured at fair value.

Statement of compliance

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

- (a) PFRS - correspond to International Financial Reporting Standards;
- (b) Philippine Accounting Standards (PAS) - 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 consolidated financial statements are presented in Philippine Peso (P), which is also the functional currency of the Group. All amounts have been rounded to the nearest peso, unless otherwise indicated.

Changes in accounting policies

a) New standards, interpretations and amendments effective from January 1, 2010

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended PFRS and IFRIC interpretations effective as of January 1, 2010:

- PFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions effective January 1, 2010
- PFRS 3 Business Combinations (Revised) and PAS 27 Consolidated and Separate Financial Statements (Amended) effective July 1, 2009, including consequential amendments to PFRS 2, PFRS 5, PFRS 7, PAS 7, PAS 21, PAS 28, PAS 31 and PAS 39
- PAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items effective July 1, 2009
- IFRIC 17 Distributions of Non-cash Assets to Owners effective July 1, 2009
- Improvements to PFRS (May 2008)
- Improvements to PFRS (April 2009)

The adoption of the standards or interpretations is described below:

- **PFRS 2 Share-based Payment (Revised):** The FRSC issued an amendment to PFRS 2 that clarified the scope and the accounting for group cash-settled share-based payment transactions. The Group adopted this amendment as of January 1, 2010. It did not have an impact on the financial position or performance of the Group.
- **PFRS 3 Business Combinations (Revised) and PAS 27 Consolidated and Separate Financial Statements (Amended):** PFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results.

PAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a

gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by PFRS 3 (Revised) and PAS 27 (Amended) affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after January 1, 2010.

The change in accounting policy was applied prospectively and had no material impact on earnings per share.

- **PAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items:** The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.
- **IFRIC 17 Distribution of Non-cash Assets to Owners:** This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation has no effect on either, the financial position or performance of the Group.

Improvements to PFRS

In April 2009, the FRSC issued amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

- PFRS 2 Share-based Payment;
- PAS 1 Presentation of Financial Statements;
- PAS 17 Leases;
- PAS 34 Interim Financial Reporting;
- PAS 38 Intangible Assets;
- PAS 39 Financial Instruments: Recognition and Measurement;
- IFRIC 9 Reassessment of Embedded Derivatives; and,
- IFRIC 16 Hedge of a Net Investment in a Foreign Operation.

b) New standards, interpretations and amendments issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective.

- **PAS 24 Related Party Disclosures (Amendment):** The amended standard is effective for annual periods beginning on or after January 1, 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard. The Group does not expect any impact on its financial position or performance.
- **PAS 32 Financial Instruments: Presentation - Classification of Rights Issues (Amendment):** The amendment to PAS 32 is effective for annual periods beginning on or after February 1, 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where

such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no impact on the Group after initial application.

- **PFRS 9 Financial Instruments: Classification and Measurement:** PFRS 9 as issued reflects the first phase of the FRSC work on the replacement of PAS 39 and applies to classification and measurement of financial assets as defined in PAS 39. The standard is effective for annual periods beginning on or after January 1, 2013. In subsequent phases, the FRSC will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.
- **IFRIC 14 Prepayments of a minimum funding requirement (Amendment):** The amendment to IFRIC 14 is effective for annual periods beginning on or after January 1, 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is deemed to have no impact on the financial statements of the Group.
- **IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments:** IFRIC 19 is effective for annual periods beginning on or after July 1, 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the Group.

Improvement to IFRS (Issued in May 2010)

The FRSC issued improvements to PFRS, an omnibus of amendments to its PFRS. The amendments have not been adopted as they become effective for annual periods on or after either July 1, 2010 or January 1, 2011. The amendments listed below, are considered to have a reasonable possible impact on the Group:

- PFRS 3 Business Combinations;
- PFRS 7 Financial Instruments: Disclosures;
- PAS 1 Presentation of Financial Statements;
- PAS 27 Consolidated and Separate Financial Statements; and,
- IFRIC 13 Customer Loyalty Programmers.

2.2 Basis of consolidation

Basis of consolidation from January 1, 2010

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at December 31, 2010.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company,

using consistent accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interest
- Derecognizes the cumulative translation differences, recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

Basis of consolidation prior to January 1, 2010

Certain of the above-mentioned requirements were applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisitions of non-controlling interests, prior to January 1, 2010, were accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired were recognized in goodwill.
- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributed to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to January 1, 2010 were not reallocated between non-controlling interest and the parent shareholders.
- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying value of such investments at January 1, 2010 has not been restated.

2.3 Business combinations

Business combinations from January 1, 2010

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses in the consolidated statement of comprehensive income.

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

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with PAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

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

Business combinations prior to January 1, 2010

In comparison to the above-mentioned requirements, the following differences applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognized goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognized if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognized as part of goodwill.

2.4 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. Financial information on business segments is presented in Note 6 to the consolidated financial statements.

2.5 Financial instruments

Financial assets

The Group classifies its financial assets into loans and receivables category as discussed below, depending on the purpose for which the asset was acquired. The Group has not classified any of its financial assets as fair value through profit or loss (FVPL), held to maturity (HTM) and available for sale investments (AFS).

Financial assets at FVPL

This category comprises only in-the-money derivatives which are carried in the consolidated statements of financial position at fair value with changes in fair value recognized in the consolidated statement of income in the finance income or cost line item. Other than derivative financial instruments which are not designated as hedging instruments, the Group does not have any assets held for trading nor does it voluntarily classify any financial assets as being at FVPL.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortized cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognized when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net; such provisions are recorded in a separate allowance account with the loss being recognized within operating expenses in the consolidated statement of comprehensive income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

From time to time, the Group elects to renegotiate the terms of trade receivables due from customers with which it has previously had a good trading history. Such renegotiations will lead to changes in the timing of payments rather than changes to the amounts owed and, in consequence, the new expected cash flows are discounted at the original effective interest rate and any resulting difference to the carrying value is recognized in the consolidated statement of comprehensive income (operating profit).

The Group's loans and receivables comprise cash in banks, trade and other receivables, notes receivable and advances to related parties in the consolidated statements of financial position.

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 consolidated statement of financial position. Changes in the fair value of such assets are reported in the "Unrealized gain (loss) on AFS investments" in the consolidated statement of financial position until the investment is derecognized or the investment is determined to be impaired. The Group does not have any assets under this category.

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

HTM investments

HTM Investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group's management has the positive intention and ability to hold to maturity. 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 operations when the HTM investments are derecognized or impaired, as well as through the amortization process. The Group does not have any assets under this category.

Financial liabilities

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at FVPL, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

Financial liabilities at FVPL

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVPL. Financial liabilities are classified as held for trading if they are acquired for the purpose for selling the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instrument in hedge relationship as defined by IAS 19. Separate embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or loss on liabilities held for trading are recognized in the profit or loss. The Group has not designated any financial liabilities upon initial recognition as FVPL.

Loans and borrowings

The Group classifies its financial liabilities into loans and borrowings which includes the following items:

- Interest-bearing loans and borrowings are initially recognized at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortized cost using the effective interest rate (EIR) method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the consolidated statement of financial position.
- Other financial liabilities, which are initially recognized at fair value and subsequently carried at amortized cost using the EIR method.

PFRS 7 fair value measurement hierarchy

PFRS 7 requires certain disclosures which require the classification of financial assets and financial liabilities measured at fair value using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurement (see Note 3). The fair value hierarchy has the following levels:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- (b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The level in the fair value hierarchy within which the financial asset or financial liability is categorized is determined on the basis of the lowest level input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of the three levels.

2.6 Inventories

Inventories are initially recognized at cost, and subsequently at the lower of cost and net realizable value (NRV). Cost is determined using the moving average method and comprises all cost of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. 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.

Harvested agricultural produce are carried at fair value less estimated point-of-sale costs. The Group directly writes off inventory obsolescence due to spoilage, damage, and bad quality.

2.7 Advances to projects

Advances to projects represent unliquidated expenditures for unutilized farm locations. Advances to projects are initially recorded as asset and measured based on actual cash outlay. Subsequently, said advances are reclassified to biological assets or property and equipment once the recognition criteria for those assets are met. Other liquidated advances to projects are recorded as period costs in the statement of comprehensive income.

Advances to project are classified in the consolidated statement of financial position as current assets when these advances are expected to be liquidated within one year or the Group's normal operating cycle, whichever is longer. Otherwise these are classified as non-current asset.

2.8 Prepayments

Prepayments represent expenses not yet incurred but already paid in cash. Prepayments are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are charged against income as they are consumed in operations or expire with the passage of time.

Prepayments are classified in the consolidated statements of financial position as current assets when the cost of goods or services related to the prepayment are expected to be incurred within one year or the Group's normal operating cycle, whichever is longer. Otherwise prepayments are classified as non-current assets.

2.9 Biological assets

Biological assets or agricultural produce are recognized only when the Group controls the assets as a result of past events, it is probable that future economic benefits associated with the assets will flow to the Group and the fair value or cost of the assets can be measured reliably.

The Group classifies its biological assets between consumable and bearer biological assets. Consumable biological assets are those that are to be harvested as agricultural produce or sold as biological assets. The Company further classifies its bearer biological assets between mature or immature biological assets.

The Group measures its biological assets at cost on initial recognition and at the end of each reporting period, at fair value less estimated point-of-sale costs. Point-of-sale costs include commissions to brokers and dealers, levies by regulatory agencies and commodity exchanges, transportation costs and transfer taxes and duties. Subsequent expenses relating to agricultural activity such as planting, weeding, irrigation, fertilizers and harvesting costs are recorded as cost of production of that period. Harvested agricultural produce are transferred to inventory at its fair value less estimated point-of-sale costs.

Gains or losses arising from the change in fair value less estimated point-of-sale costs of a biological asset are included in profit or loss for the period in which they arise.

2.10 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 only when it is probable that future economic benefits associated with the item, 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:

	Estimated life
Building	15 years
Store and warehouse equipment	3 - 5 years
Delivery and transportation equipment	3 - 12 years
Machinery and equipment	3 - 12 years
Office furniture and fixtures	3 - 12 years
Other equipment	3 - 12 years
Land & 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 asset is completed and ready for intended 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 comprehensive income.

2.11 Leases

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and are not recognized in the Group's statement of financial position.

Group as lessor

Rental income from operating leases is recognized as income on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Group as lessee

Assets held under finance leases are recognized as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the consolidated statements of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognized as expense in the period in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except when another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except when another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfillment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Group the right to control the use of the underlying asset.

At inception or upon reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognized at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognized using the Group's incremental borrowing rate.

2.12 Intangible assets

Trademark

Trademark is measured initially at cost which includes, but not limited to, costs of material and services used or consumed in generating the asset, costs of employee benefits arising from the generation of the asset and fees paid to register the legal right to own the asset. After initial recognition, the trademark is carried at a revalued amount, being the fair value at the date of revaluation less any subsequent accumulated amortization. For purposes of revaluation, fair value shall be determined by reference to an active market of that asset; where an active market is not available, appropriate valuation technique is employed to estimate the fair value of the asset as of the consolidated statement of financial position date. The trademark has been granted for a period of 10 years by the relevant government agency with the option of renewal at the end of that period.

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

Gains or losses arising from de-recognition of the trademark are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the profit or loss when the asset is derecognized.

Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. The Company measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

Goodwill is subsequently measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity accounted investee.

Computer software

Computer software are initially recognized at cost and subsequently amortized on a straight-line basis over their useful economic lives. Amortizations are computed using the straight-line method over the estimated useful lives of 5 years.

2.13 Share capital

Financial instruments issued by the Group are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset.

The Group's ordinary shares are classified as equity instruments.

2.14 Provisions and contingencies

The Group has recognized provisions for liabilities of uncertain timing or amount including those for onerous leases, warranty claims, leasehold dilapidations and legal disputes. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date, discounted at a pre-tax rate reflecting current market assessments of the time value of money and risks specific to the liability.

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.

2.15 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 statement of comprehensive 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.

2.16 Pension benefit cost

The amount recognized as net pension liability is the net of the present value of the defined benefit obligation at the financial reporting date minus the fair value at the financial reporting 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.

2.17 Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business.

Sale of goods

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue from sale of goods is recognized when all the following conditions are satisfied:

- a. the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- b. the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- c. the amount of revenue can be measured reliably;
- d. it is probable that the economic benefits associated with the transaction will flow to the Group; and
- e. the costs incurred or to be incurred in respect of the transaction can be measured reliably.

If it is probable that discount will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sale is recognized.

Finance income

Interest income is accrued on a time proportion basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

2.18 Expense recognition

Expenses are recognized in the consolidated statement of income when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Expenses are recognized: on the basis of a direct association between the costs incurred and the earning of specific items of income; on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined; or immediately when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the statements of financial position as an asset.

Expenses in the consolidated statements of comprehensive income are presented using the function of expense method. Cost of sales are expenses incurred that are associated with the goods sold and includes freight in, purchases and direct labor. Operating expenses are costs attributable to selling and administrative activities of the Group.

2.19 Foreign currency translation

The Group's consolidated financial statements are presented in Philippine Peso (P), which is also the parent company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group has elected to recycle the gain or loss that arises from the direct method of consolidation, which is the method the Group uses to complete its consolidation.

i) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

All differences are taken to the income statement with the exception of all monetary items that provide an effective hedge for a net investment in a foreign operation. These are recognized in other comprehensive income until the disposal of the net investment, at which time they are recognized in the profit or loss.

Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Prior to January 1, 2005, the Group treated goodwill and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition as assets and liabilities of the parent. Therefore, those assets and liabilities are already expressed in the functional currency or are non-monetary items and no further translation differences occur.

ii) Group companies

The assets and liabilities of foreign operations are translated into Philippine Peso (P) at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on the translation are recognized in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized in the profit or loss.

Any goodwill arising on the acquisition of a foreign operation subsequent to 1 January 2005 and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

2.20 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

2.21 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.

2.22 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 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, carry-forward 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 carry-forward 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.

2.23 Earnings per share (EPS)

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.

For the purpose of calculating diluted earnings per share, profit or loss for the year attributable to ordinary equity holders and the weighted average number of shares outstanding are adjusted for the effects of all dilutive potential ordinary shares.

2.24 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.

2.25 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's Chief Executive Officer (CEO) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the period to acquire property, and equipment, and intangible assets other than goodwill.

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 December 31, 2010 and 2009 amounted to P467,863,025 and P573,355,504 and P500,083,165 and P200,315,522, respectively (see Note 25).

Determination of fair value of biological asset

The Group's biological asset is measured on initial recognition and adjusted to its fair value less estimated point-of-sale costs at the end of each reporting period. In measuring the fair value less estimated point-of-sale costs, the following factors are considered:

- Quoted price in an active market
- Most recent market transaction price
- Market price for similar asset with adjustment to reflect any differences
- Sector benchmark
- Present value of expected net cash flows from the asset

The fair value less estimated point-of-sale costs of the Group's biological assets amounted to P454,859,523 as of December 31, 2010 (see Note 9).

Determination of fair value of trademark

Income approach is the conversion of the property's anticipated future income or expected periodic benefits of ownership into an indication of value. It is based on the premise that an informed buyer would pay no more for the property than an amount equal to the present worth of anticipated future income from the same or equivalent property with similar risk. The income approach capitalizes the net future benefits accruing to the asset or group of assets. The term "net future benefits" means that all measurable costs — including estimation of risks — related to gainfully exploiting the assets are duly factored out. This approach is applicable to the valuation of income producing properties, business enterprise as well as the valuation of intangible assets. This approach measures the current value of an asset by calculating the present value of its future economic benefits by discounting expected cash flows at a rate of return that compensates the risks associated with the particular investment.

Relief from royalty method, the most comprehensive method to value brand, is a method that assumes the owner of the intangible asset saves from operating costs by possessing the intangible asset. The underlying premise of this method is that the economic value of the asset is directly related to the amount and timing of the future net cash flows resulting from the asset.

The valuation process consisted of the following:

- Estimation of the net sales attributable to the brand;
- Estimation of the acceptable royalty rate;
- Estimation of an appropriate discount rate; and
- Discounting process using an appropriate discount rate to arrive at an indicative market value of the brand.

The Valuation assumptions used were as follows:

- The discount rate was computed using the build up method; discount rate in the valuation is 13.10%
- Discount rate is used to calculate the present value of future projections of a benefit stream when growth varies from year to year. However, if growth is estimated to remain level throughout the life of investment, a capitalization rate is often used.
- The valuation is based on the Company's historical and projected financial assumptions and projection. Projections prepared reflect the current and expected future market conditions avoiding excessive optimism.

The fair value of the Group's trademark as of December 31, 2010 amounted to P779,000,000 respectively (see Note 12).

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 P521,670,051 and P145,761,509 as of December 31, 2010 and 2009, respectively (see Note 11).

Impairment loss of financial assets

The Group maintains allowance for bad debts accounts based on the result of the individual and collective assessment under PAS 39. Under the individual assessment, the Group is required to obtain the present value of estimated cash flows using the receivable's original EIR. Impairment loss is determined as the difference between the receivables' carrying balance and the computed present value. Factors considered in individual assessment are payment history, past due status and term. The collective assessment would require the Group to classify its receivables based on the credit risk characteristics (customer type, payment history, past due status and term) of customers. Impairment loss is then determined based on historical loss experience of the receivables grouped per credit risk profile. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period in which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for individual and collective assessments are based on management's judgment and estimate. Therefore, the amount and timing of recorded expense for any period would differ depending on the judgments and estimates made for the year.

As of December 31, 2010, the Group determined that trade receivables amounting to P3,215,517 were impaired based on individual assessment.

Impairment of non-financial assets

The Group 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 2010 and 2009 (see Note 11).

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.

In accordance with PFRS, actual results that differ from the assumptions used are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The estimated liability for retirement benefits amounted to P950,645 and P733,215 as of December 31, 2010 and December 31, 2009, respectively (see Note 15).

Recognition of deferred tax assets

The Group reviews its deferred income tax assets at each financial reporting 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 assets to be utilized.

Total deferred income tax assets amounted to P1,249,848 and P225,777 as of December 31, 2010 and 2009, respectively (see Note 24).

NOTE 4 - 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 in banks, trade and other receivables and payables, note receivable, interest bearing loans and borrowings and advances to and from 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 relationship. 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 related parties 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:

	2010	2009
Loans and receivables		
Cash in banks	P53,274,425	P144,072,373
Trade and other receivables, net	294,329,640	238,969,099
Note receivable	58,000,000	58,000,000
Advances to related parties	41,756,983	50,699,965
	<u>P447,361,048</u>	<u>P491,741,437</u>

Aging analyses of financial assets are as follows:

	2010					
	Past due but not impaired					
	Carrying amount	Neither impaired nor past due on the reporting date	1 to 60 days	61 to 90 days	91 to 120 days	More than 120 days
Trade and other receivables, net (Note 7)	P294,329,640	P236,569,878	P 25,995,677	P 1,381,195	P 30,382,890	P -
Note receivable	58,000,000	58,000,000	-	-	-	-
Advances to related parties (Note 16)	41,756,983	41,756,983	-	-	-	-
	<u>P394,086,623</u>	<u>P336,326,861</u>	<u>P25,995,677</u>	<u>P1,381,195</u>	<u>P30,382,890</u>	<u>P-</u>
	2009					
	Past due but not impaired					
	Carrying amount	Neither impaired nor past due on the reporting date	1 to 60 days	61 to 90 days	91 to 120 days	More than 120 days
Trade and other receivables (Note 7)	P238,969,099	P 85,894,149	P 10,041,044	P 7,056,475	P 69,283,154	P 66,694,277
Note receivable	58,000,000	58,000,000	-	-	-	-
Advances to related parties (Note 16)	50,699,965	50,699,965	-	-	-	-
	<u>P347,669,064</u>	<u>P194,594,114</u>	<u>P10,041,044</u>	<u>P7,056,475</u>	<u>P69,283,154</u>	<u>P66,694,277</u>

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.

Credit quality per class of financial assets

The Company's bases in grading its financial assets are as follows:

High grade - These are receivables which have a high probability of collection (the counterparty has the apparent ability to satisfy its obligation and the security on the receivables are readily enforceable).

Standard - These are receivables where collections are probable due to the reputation and the financial ability of the counterparty to pay but have been outstanding for a certain period of time.

Substandard - These are receivables that can be collected provided the Company makes persistent effort to collect them.

The table below shows the credit quality by class of financial assets (gross of allowance for credit losses) of the Company based on their historical experience with the corresponding third parties as of December 31, 2010 and 2009:

2010							
	Neither Past Due nor Impaired				Past Due but Not Impaired	Impaired	Total
	High Grade	Standard Grade	Substandard Grade	Unrated*			
Cash in bank	P 53,274,425	P-	P-	P-	P-	P-	P 53,274,425
Advances to related parties	41,756,983	-	-	-	-	-	41,756,983
Trade and other receivables	262,565,555	1,381,195	30,382,890	-	-	-	294,329,640
Note receivable	58,000,000	-	-	-	-	-	58,000,000
	<u>P415,596,963</u>	<u>P1,381,195</u>	<u>P30,382,890</u>	<u>P-</u>	<u>P-</u>	<u>P</u>	<u>P 447,361,048</u>
2009							
	Neither Past Due nor Impaired				Past Due but Not Impaired	Impaired	Total
	High Grade	Standard Grade	Substandard Grade	Unrated*			
Cash in bank	P38,114,019	P-	P-	P-	P-	P-	P38,114,019
Advances to related parties	50,699,965	-	-	-	-	-	50,699,965
Trade and other receivables	96,162,902	7,056,475	135,750,222	-	-	-	238,969,599
Note receivable	58,000,000	-	-	-	-	-	58,000,000
	<u>P242,976,886</u>	<u>P7,056,475</u>	<u>P135,750,222</u>	<u>P-</u>	<u>P-</u>	<u>P-</u>	<u>P342,943,989</u>

**Financial instruments that the Company did not rate such as unquoted equity investments*

Impairment assessment

Impairment losses are recognized based on the results of specific (individual) and collective assessment of credit exposures. Impairment has taken place when there is a presence of known difficulties in the payments of obligation by counterparties. This and other factors, either singly or in tandem with other factors, constitute observable events or data that meet the definition of objective evidence of impairment.

The Group applied specific (individual) assessment methodology in assessing and measuring impairment.

Specific (individual) assessment

The Company determines the allowances appropriate for each individually significant loan on an individual basis. Items considered when determining amounts of allowances include payment and collection history, timing of expected cash flows and realizable value of collateral, if any.

The Company sets criteria for specific loan impairment testing and uses the Discounted Cash Flow method to compute for impairment loss. Accounts subjected to specific impairment and are found to be impaired shall be excluded from the collective impairment computation.

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 as of December 31:

	2010				Total
	On Demand	Less than 3 months	3 to 12 Months	1 to 5 Years	
Trade and other payables (Note 13)	P49,727,666	P3,920,656	P49,774	P-	P53,698,096
Interest bearing loans and borrowings (Note 14)*	-	-	519,442,200	-	519,442,200
Advances from related parties (Note 16)	215,208	-	-	-	215,208
	<u>P49,942,874</u>	<u>P3,920,656</u>	<u>P519,491,974</u>	<u>P-</u>	<u>P573,355,504</u>
	December 31, 2009				Total
	On Demand	Less than 3 months	3 to 12 Months	1 to 5 Years	
Trade and other payables (Note 13)	P512,199	P29,585,545	P20,300,565	P-	P50,398,309
Interest bearing loans and borrowings (Note 14)*	-	-	166,734,989	-	166,734,989
Advances from related parties (Note 16)	-	-	3,182,227	-	3,182,227
	<u>P512,199</u>	<u>P29,585,545</u>	<u>P190,217,781</u>	<u>P-</u>	<u>P220,315,525</u>

*The Group has the option to roll forward these loans and borrowings, which are normally due within 3 months or less.

Market risk

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.

Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates.

The Group's financial instrument that is exposed to interest risk is its loans that are based on prevailing market rate, subject to quarterly reprising. These are concession rates given by the bank in consideration for the Group's operational and financial difficulties.

The following tables show information about the Group's financial instruments that are exposed to interest rate risk and presented by maturity profile as of December 31:

		2010					
		Within 1 year	1 to 2 Years	2 to 3 Years	3 to 4 Years	4 to 5 Years	Total
<i>Fixed rate</i>							
Loans and borrowings							
MICB	P55,254,652		P-	P-	P-	P-	P55,254,652
BPI	131,538,900		-	-	-	-	131,538,900
BDO	100,000,000		-	-	-	-	100,000,000
BOC	42,720,140						42,720,140
UCPB	50,000,000		-	-	-	-	50,000,000
LBP	49,000,000		-	-	-	-	49,000,000
China Trust	69,930,295		-	-	-	-	69,930,295
ORIX	20,998,213		-	-	-	-	20,998,213
P519,442,200			P-	P-	P-	P-	P519,442,200
		2009					
		Within 1 year	1 to 2 Years	2 to 3 Years	3 to 4 Years	4 to 5 Years	Total
<i>Fixed rate</i>							
Loans and borrowings							
MICB	P6,047,966		P-	P-	P-	P-	P6,047,966
BPI	60,000,000		-	-	-	-	60,000,000
BDO	43,000,000		-	-	-	-	43,000,000
MBTC	10,000,000		-	-	-	-	10,000,000
LBP	17,000,000		-	-	-	-	17,000,000
BOC	868,712		-	-	-	-	868,712
RCBC	15,000,000		-	-	-	-	15,000,000
ORIX	14,818,311		-	-	-	-	14,818,311
P166,734,989			P-	P-	P-	P-	P166,734,989

Foreign exchange risk

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise with respect to transactions denominated in US Dollars and Hongkong Dollars. Foreign exchange risk arises future commercial transactions and recognized assets and liabilities are denominated in a currency that is not the Group's functional currency. Significant fluctuation in the exchange rates could significantly affect the Group's financial position. The Group regularly monitors outstanding financial assets and liabilities in foreign currencies and maintains them at a level responsive to the current rates so as to minimize the risks related to these foreign currency denominated assets and liabilities.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	2010		2009	
	US Dollar (US\$)	Peso equivalent (P)	US Dollar (US\$)	Peso equivalent (P)
Cash on hand and in banks	US\$136,362	P5,982,472	US\$ 498,562	P12,339,399
Trade and other receivables	920,329	40,810,577	912,844	545,808
	US\$1,056,691	P46,793,049	US\$ 1,411,406	P12,885,207

	2010		2009	
	Hongkong Dollar (HK\$)	Peso equivalent (P)	Hongkong Dollar (HK\$)	Peso equivalent (P)
Cash on hand and in banks	HK\$-	P-	HK\$15,400	P96,461
Trade and other receivables	2,143,783	12,106,486	2,987,355	18,304,420
	HK\$2,143,783	P12,106,486	HK\$3,002,755	P18,400,881

The following table details the Group's sensitivity to a 10% increase and decrease in Peso against the relevant foreign currencies. The sensitivity rate used reporting foreign currency risk internally to key management personnel is 10% and it represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% in foreign currency rates. The sensitivity analysis includes all of the Group's foreign currency denominated monetary assets and liabilities. A positive number below indicates an increase in profit and other equity when the Peso strengthens 10% against the relevant currency. For a 10% weakening of the Peso against the relevant currency, there would be an equal and opposite impact on the profit and other equity and the balances below would be negative.

	Change in foreign currency rates	Effect on profit before tax	
		2010	2009
Cash on hand and in banks	+10%	P598,424	P2,320,339
	-10%	(598,424)	(2,320,339)
Trade and other receivables	+10%	4,038,862	6,017,181
	-10%	(4,034,720)	(6,017,181)

* Amounts were translated using foreign exchange rates from the Bangko Sentral ng Pilipinas.

Capital risk management

The primary objective of the Group's capital management is to ensure its ability to continue as a going concern and that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The BOD has overall responsibility for monitoring of capital in proportion to risk. Profiles for capital ratios are set in the light of changes in the Group's external environment and the risks underlying the Group's business operations and industry.

The Group monitors capital on the basis of the debt-to-equity ratio, which is calculated as total debt divided by total equity. Total debt is equivalent to total liabilities shown in the consolidated statements of financial position. Total equity comprises all components of equity including share capital, additional paid-in capital and retained earnings.

	2010	2009
Debt	P839,050,979	P218,482,533
Cash	(73,776,402)	(152,186,392)
Net debt	765,274,577	66,296,141
Equity	1,585,192,636	546,322,170
Net debt to equity ratio	0.48	0.12

There were no changes in the Group's approach to capital management during the periods. The Group is not subject to externally imposed capital requirements.

NOTE 5 - OPERATING SEGMENTS

During the year, management reorganized the Group into five segments - Supply Chain/Farming Group, Production Group, Distribution (local) Group, Export Group and the Others Group. 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.

Operating segment	Description
Supply Chain/Farming	growing and sourcing of fresh fruits and vegetables throughout the Country
Production	production of export quality processed fruits and vegetables, and other processed food, using homegrown agricultural products as ready to consume, frozen raw material and ingredients mixes
Distribution (local)	distribution and warehousing of fresh fruits and vegetables, and processed foods, throughout the Country
Export	distribution and sales of the Group's products outside of the Country
Others	handles trucking, logistics, food processing, and other activities that do not fall under the previous Group categories

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 sales, 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.

The following table presents sale and expense information and certain asset and liability information regarding business segments for the years ended December 31, 2010 and 2009 (amounts in '000).

	Farming		Production		Distribution		Export		Others		Total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Sales	P148,069	P84,515	P72,076	P22,179	P918,518	P724,961	P388,332	P201,734	P58,016	P-	P1,585,011	P1,017,682
Cost of sales	(141,129)	(77,693)	(101,612)	(12,989)	(772,670)	(646,957)	(247,523)	(144,034)	(51,370)	-	(1,314,304)	(865,966)
Operating Income (expenses)	48,936	(2,926)	(21,504)	(6,913)	(62,978)	(47,981)	(95,386)	(44,523)	(4,986)	-	(135,918)	(102,343)
Income taxes	(19,660)	(890)	(1,251)	(798)	(13,519)	(8,670)	(6,130)	(3,325)	(678)	-	(41,238)	(13,683)
Profit (loss) for the year	P36,216	P3,006	P(52,291)	P1,479	P69,351	P21,353	P39,293	P9,852	P982	P-	P93,551	P35,690
Segment assets	P585,886	P55,780	P138,068	P62,513	P1,138,717	P308,343	P518,834	P596,250	P42,738	P-	P2,424,243	P 769,924
Segment liabilities	20,995	42,744	P17,891	12,734	566,827	161,476	227,802	86,640	5,536	-	839,051	223,603

NOTE 6 - CASH ON HAND AND IN BANKS

	<u>2010</u>	<u>2009</u>
Cash on hand	P20,501,977	P38,114,019
Cash in banks	<u>53,274,425</u>	<u>114,072,373</u>
	<u>P73,776,402</u>	<u>P152,186,392</u>

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

NOTE 7 - TRADE AND OTHER RECEIVABLES, NET

	<u>2010</u>	<u>2009</u>
Trade	P 201,273,435	P 169,830,939
Deposit to suppliers	88,094,259	57,390,435
Others	<u>8,177,463</u>	<u>11,747,725</u>
	297,545,157	238,969,099
Allowance for bad debts	<u>(3,215,517)</u>	<u>-</u>
	<u>P 294,329,640</u>	<u>P 238,969,099</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.

The allowance for bad debts during the year is based on specific impairment assessments performed by the Group.

NOTE 8 - INVENTORIES

	<u>2010</u>	<u>2009</u>
Vegetables and fruits	P67,808,391	P20,418,251
Packaging materials and other supplies	6,802,780	12,392,840
Finished goods	2,925,405	-
Raw materials	<u>-</u>	<u>4,938,387</u>
	<u>P77,536,576</u>	<u>P37,749,478</u>

NOTE 9 - BIOLOGICAL ASSETS

	<u>Consumable</u>	<u>Bearer</u>	<u>Total</u>
Transfer from advances to projects	P188,217,909	P207,261,253	P395,479,162
Gain (loss) on changes in fair value of biological assets	<u>86,751,105</u>	<u>(27,370,744)</u>	<u>59,380,361</u>
	<u>P274,969,014</u>	<u>P179,890,509</u>	<u>P454,859,523</u>

Gain (loss) on changes in fair value of the biological assets are shown below:

	Consumable	Bearer	Total
Fair value of biological assets	P 313,998,054	P254,576,350	P568,574,404
Estimated point of sale costs	(39,029,040)	(74,685,841)	(113,714,881)
Fair value less point of sale costs of biological assets	274,969,014	179,890,509	P454,859,523
Initial costs/Transfer from advances to projects	188,217,909	207,261,253	395,479,162
Gain (loss) on changes of fair value of biological assets	P86,751,105	(P27,370,744)	59,380,361

Consumable biological assets include rice, corn, pineapple and mushroom. Aside from producing crops, the Group is also engaged in introduction, field-testing and commercialization of new and imported crop varieties that are high yielding. Relevant agricultural activities data pertaining to consumable biological assets shown below:

Consumables	Utilized area (ha)
Rice	520
Corn and pineapple	130
Mushroom	7

The Group's bearer biological assets include vegetable bearing plants, mango and other fruit trees. A total of 5,800 mango trees are managed by the BCHAC in Bulacan and Guimaras. Demo farms have been set up in different parts of Luzon for fruit and vegetable growing. Other relevant agricultural activities data pertaining to bearer biological assets shown below:

Bearers - immature	Utilized area (ha)
Highland and lowland vegetables	109

The Group's financial condition and results of operations may be adversely affected by any disruptions in the supply of, or the price fluctuations, for its major products.

The Group procures its vegetables and fruits (mangoes, banana, and pineapple) from various sources, ranging from small farmers to cooperatives and big producers. Currently, part of the Group's internal supply requirement is provided for by its farming subsidiary, BCHC. As a policy, volume and quality is the main consideration in the sourcing of all the products handled by ANI. However, the risk of supply shortage poses significant threat to the continuity of business operations and ultimately to the results of operations of the Group. To mitigate supply risks, Group does the following:

- Observes an "open line" type of communication with all its suppliers, maintaining 24/7 constant coordination and accessibility with key personnel including the Company's top management. This enables the Purchasing Division to realign sourcing activities and locations in a timely and appropriate manner should supply issues arise;
- The Group, owing to its long standing stature in the fresh foods industry, is able to attract reputable and reliable long-term suppliers. The strong relationship with its suppliers, built over years of mutually beneficial dealings, allows the Group and its suppliers to address and resolve any supply concerns that may arise, from time to time, through mutual cooperation. The Group believes that "Friendship beyond Business" works;

- The establishment of cold storage facilities in Pulilan (central Luzon) central packing house and Cagayan central depot (Mindanao) in the last quarter of 2009, provides ANI with the capacity to effectively store large volumes of fresh vegetables. Thus, the Group is better able to mitigate the risks inherent in the seasonality of supplies for certain types of produce. The cold storage prolongs shelf life and enables the Company to maintain a buffer stock for these produce;
- The Group is currently expanding its cold storage facilities to dramatically increase its capacity to stock supplies; and
- The Group intends to intensively develop the farmlands being managed by its wholly-owned subsidiary BCHC. The Group intends to develop and operate 5,000 hectares of productive farmland which would significantly reduce or eliminate its dependence on third party sources for its supplies and improve its ability to control its quality and prices.

The Group's business is affected by seasonality

The demand for and supply of many fruits and vegetables is seasonal, and the price of any particular commodity may change significantly, depending on the season. Market demand is especially strong during the Yuletide season in the last quarter of the calendar year. Because of seasonality, the results of operations of the Group may fluctuate significantly from one quarter to another.

To mitigate the risks of seasonality of supplies and prices, the Group has diversified its source or products geographically, so seasonal fluctuations in one region can be offset by those in another region. The setting-up of additional cold storage facilities also allows the Group to stock up on certain produce when they are "in season" and therefore relatively inexpensive, so such produce can be sold in the market when they are "off season" and can command higher prices and provide wider gross profit margins.

Risk of inadequate supply in the event of inclement weather

Inclement weather is traditionally a major source of uncertainty in the agriculture industry. Its inherent volatility and the occurrence of extreme weather events due to global climate change impacts greatly the performance and management of the Group's farming and trading operations. For example, the El Nino and La Nina phenomena, characterized by alternating cycles of inadequate and excessive rainfall, respectively, has in the past posed significant challenges to growers and traders like. At present, the Philippines is in the middle of what has been described as a mild El Nino event and is experiencing less than normal rainfall in numerous parts of the country.

To manage this risk, the Group implements a geographical diversification strategy where its operations are spread across the country, depending on the existing season (wet or dry) to ensure continued production and trading. As such, the Group is able to step up operations in farms, buying stations and raw material trading posts in the Visayas and Mindanao to offset the cutback in the Luzon area before the typhoon season begins. The Group believes that its nationwide presence has allowed for a stable and reliable conduct of operations all year round.

Moreover, as a farming practice, the Group adapts to the existing season to determine the crops to be planted and produced (i.e. rice production during wet season), thus enabling its farms to remain productive every month of the year. In addition, this crop rotation method is able to prevent depletion of nutrients of the soil and immunity of domestic pest.

Risks of pest and insect infestation

Pest and disease infestation affect both the quantity and quality of commodities available for the market. If not addressed appropriately, infestation may translate to decreased crop yield and farm output, as well as uncertainty in commodity prices. Infestation may also render the Group's products

unacceptable to both domestic and export products, and could adversely affect its results of operations.

The Group mitigates this risk by adopting a mix of modern pest control systems, Good agricultural practices (such as crop rotation) and the use of a mixture of organic fertilizers in its production farms. The Group also sources its supply requirements from farms and buying stations located in different provinces and regions of the country. This way, no widespread infestation would drastically weaken the Group's supply chain at any time. The Group's nationwide diversified geographical locations allow its farm production and trading activities to easily shift the bulk of its key operations from one region to another should the need arise.

NOTE 10 - ADVANCES TO PROJECTS

This account pertains to cash advances provided for farm projects. Balance amounted to P64,255,063 and P53,412,422 as of December 31, 2010 and 2009, respectively.

2010				
Farm Location	At January 1	Additions	Reclassification to biological assets (Note 9)	At December 31
Region 3	P51,762,422	P195,904,017	(P 204,693,509)	P 42,972,930
Region 4	1,650,000	88,616,731	(76,939,708)	13,327,023
Region 8	-	97,975,855	(97,975,855)	-
Region 9	-	23,825,200	(15,870,090)	7,955,110
	<u>P53,412,422</u>	<u>P406,321,803</u>	<u>(P395,479,162)</u>	<u>P64,255,063</u>
2009				
Farm Location	At January 1	Additions	Reclassification to biological assets (Note 9)	At December 31
Region 3	P31,997,768	P19,764,654	P-	P51,762,422
Region 4	-	1,650,000	-	1,650,000
	<u>P31,997,768</u>	<u>P21,414,654</u>	<u>P-</u>	<u>P53,412,422</u>

NOTE 11 - PROPERTY AND EQUIPMENT, NET

	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, 2009	P 20,917,000	P56,689,891	P5,514,854	P10,241,064	P39,341,172	P3,775,627	2,787,632	P7,276,170	P146,543,410
Additions	13,000,000	75,336	750,262	629,646	2,645,442	329,718	14,579	455,641	17,900,624
							(72,717)		(72,717)
At December 31, 2009	33,917,000	56,765,227	6,265,116	10,870,710	41,986,614	4,105,345	2,729,494	7,731,811	164,371,317
Reclassifications					258,917	11,807	17,198	(287,922)	-
Additions	47,875,830	48,407,335	13,469,830	35,669,690	157,321,726	10,577,578	64,752,600	15,714,080	393,788,669
At December 31, 2010	P81,792,830	P105,172,562	P19,734,946	P46,540,400	P199,567,257	14,694,730	P 67,499,292	P 23,157,969	P 558,159,986
Accumulated depreciation									
At January 1, 2009	P-	P587,969	P2,267,323	P2,967,756	P3,456,260	P1,639,987	P2,348,805	P-	P13,268,100
Provision	-	1,322,590	1,099,485	1,165,584	677,911	924,255	151,883	-	5,341,708
At December 31, 2009	-	1,910,559	3,366,808	4,133,340	4,134,171	2,564,242	2,500,687	-	18,609,807
Reclassifications					(3,933)	2,500	1,433		-
Provision	-	2,106,817	1,225,852	3,036,859	7,600,906	1,696,977	2,212,716	-	17,880,127
At December 31, 2010	P-	P4,017,376	P4,592,660	P7,170,199	P11,731,144	P4,263,719	P4,714,837	P-	P36,489,935
At December 31, 2010	P81,792,830	P101,155,186	P15,142,286	P39,370,201	P187,836,113	P10,431,011	P62,784,455	P23,157,969	P521,670,051
At December 31, 2009	33,917,000	54,854,668	2,898,308	6,737,370	37,852,443	1,541,103	288,806	7,731,811	145,761,509

Construction in progress

This pertains to the capitalizable expenses amounting to P15,714,079, and P455,641 as of December 31, 2010 and 2009, respectively, in connection with the future transfer and use of a real property, which was used to be a collateral to an indebtedness of a third party to the Group wherein such property was subsequently foreclosed.

Management believes that there is no indication that an impairment loss has occurred on its property and equipment.

NOTE 12 - INTANGIBLES, NET

	Trademark	Goodwill	Computer Software	Total
Cost or valuation				
At January 1, 2009	P-	P19,509,913	P-	P19,509,913
Additions	227,709	-	-	227,709
At December 31, 2009	227,709	19,509,913	-	19,737,622
Additions	-	10,479,501	598,080	11,077,581
Change in fair value during the period	778,815,461	-	-	778,815,461
At December 31, 2010	P779,043,170	P29,989,414	P598,080	P809,630,664
Comprising:				-
At cost	P227,709	P-	P598,080	P825,789
At revaluation	778,815,461	29,989,414	-	808,804,875
	P779,043,170	P29,989,414	P598,080	P809,630,664
Accumulated amortization				
At January 1, 2009	P-	P-	P-	P-
Amortization for the period	20,399	-	-	20,399
At December 31, 2009	20,399	-	-	20,399
Amortization for the period	22,771	-	66,227	88,998
At December 31, 2010	43,170	-	66,227	109,397
Comprising:				
At cost	43,170	-	66,227	109,397
At revaluation	-	-	-	-
	P43,170	P-	P66,227	P109,397
Carrying amount				
December 31, 2010				
At cost	P184,539	P-	P531,853	P716,392
At revaluation	778,815,461	29,989,414	-	808,804,875
	P779,000,000	P29,989,414	P531,853	P809,521,267
December 31, 2009				
At cost	P207,310	P19,509,913	P-	P19,717,223
At revaluation	-	-	-	-
	P207,310	P19,509,913	P-	P19,717,223

On September 17, 2008, the Group registered the trademark Fresh Choice Always (FCA) with the Intellectual Property Office of the Philippines - Bureau of Trademarks in an attempt to create brand recognition for the Group which was subsequently approved on March 9, 2009 by the said office; initial capitalized cost amounted to P227,709 upon approval of the said trademark in 2009.

In January 2011, the Group has engaged CB Richard Ellis Phils., Inc. (CBREPI) to carry out a brand valuation of FCA as of December 31, 2010 in compliance with the Securities and Exchange Commission (SEC) requirements. On their (CBREPI) report dated March 11, 2011, the value of the said trademark amounted to P779,000,000 as of December 31, 2010. This has resulted to the increase in the value of the trademark amounting to P778,815,461 and a corresponding increase in revaluation surplus and deferred tax liability amounting to P545,170,823 and P233,644,638, respectively, as of December 31, 2010 (see Notes 18 and 24). The method and assumptions used in the said valuation are set out in Note 3.

NOTE 13 - TRADE AND OTHER PAYABLES

	2010	2009
Trade	P47,144,137	P 48,427,510
Customer's deposit	1,619,239	1,258,300
Government dues and remittances	1,401,208	512,199
Accrued expenses	1,107,106	200,300
Others	2,426,406	-
	<u>P 53,698,096</u>	<u>P50,398,309</u>

The average credit period on purchases of certain goods from suppliers is 30 days from date of invoice. Outstanding payables do not bear interest. The Company has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

NOTE 14 - INTEREST-BEARING LOANS AND BORROWINGS

This account pertains to the outstanding balances of loans and borrowings obtained by the Group, from various banks and a financing institution, for its working capital requirements and machinery and equipment acquisition.

	2010	2009
Bank of the Philippine Islands (BPI)	P131,538,900	P60,000,000
Banco De Oro (BDO)	100,000,000	30,000,000
China Trust and Banking Corporation	69,930,295	-
Mega International Commercial Bank (MICB)	55,254,652	38,547,967
United Coconut Planters Bank (UCPB)	50,000,000	-
Land Bank of the Philippines (LBP)	49,000,000	17,899,294
Bank of Commerce (BOC)	42,720,140	5,287,728
Orix Metro Leasing Finance Corporation (ORIX)	20,998,213	-
Philippine National Bank (PNB)	-	15,000,000
	<u>P 519,442,200</u>	<u>P 166,734,989</u>

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

Lenders	Term	Security
BDO	1 to 6 months	Suretyship agreement and line of credit
MICB	6 months	Real estate mortgage of FCAC's land and building
BPI	6 months	Unsecured
MBTC	5 months	Secured
LBP	6 months	Unsecured
RCBC	1 month	Transportation equipment
Chinatrust	3 - 6 months	Unsecured
PNB	6 months	Unsecured
UCPB	6 months	Unsecured
ORIX	3 years*	Machinery and equipment

*Currently maturing.

Interest rates on the said loans and borrowings range from 4.7% to 9.0% per annum. Finance costs charged to operations amounted to P16,687,620, P20,340,457, and P13,880,886 in 2010, 2009 and 2008, respectively.

Management estimates the carrying amount of its loans and borrowings approximates fair value.

NOTE 15 - PENSION BENEFITS

The Group does not have a formal retirement plan yet for its employees. The most recent actuarial valuation of the retirement plan was performed by an independent actuary on March 2, 2011. Actuarial valuations are made every two years to update the retirement benefit costs and the amount of contributions.

Movement in the net pension liability recognized in the consolidated statements of financial position is as follows:

	2010	2009
Pension liability at January 1	P733,215	P525,294
Pension cost for the period	217,430	207,921
Pension liability at December 31	<u>P950,645</u>	<u>P733,215</u>

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

	2010	2009
Present value of obligation at January 1	P388,686	P863,006
Current service cost	196,896	86,402
Interest cost	42,367	103,561
Actuarial (gain) loss	429,568	(664,283)
Present value of obligation at December 31	<u>P1,057,517</u>	<u>P388,686</u>

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

	2010	2009	2008
Current service cost	P196,896	P86,402	P44,374
Interest cost	42,367	103,561	81,126
Net actuarial loss (gain)	<u>(21,833)</u>	<u>17,958</u>	<u>16,498</u>
Pension expense	<u>P217,430</u>	<u>P207,921</u>	<u>P141,998</u>

The amount included in the present value of obligation arising from the Group's obligations in respect of its defined retirement benefit plan is as follows:

	2010	2009
Present value of defined benefit obligations	P1,057,517	P388,685
Unrecognized actuarial gains	<u>(106,872)</u>	<u>344,529</u>
	<u>P950,645</u>	<u>P733,214</u>

The key actuarial assumptions used as at the financial reporting dates are:

	2010	2009	2008
Discount rate	9.90%	10.90%	11.00%
Salary increase rate	5.00%	3.00%	5.00%
Average remaining working life of plan members	14 years	14 years	17 years

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 financial statements of the Parent Company and its subsidiaries, which are eliminated in full in the accompanying consolidated financial statements.

a. Advances

	Advances to related parties		Advances from related parties	
	2010	2009	2010	2009
Officers and employees	P 6,632,028	P 9,747,156	P9,820	P3,182,227
Stockholders	35,124,955	40,952,809	205,388	-
	<u>P41,756,983</u>	<u>P50,699,965</u>	<u>P215,208</u>	<u>P3,182,227</u>

Advances to and from stockholders, officers and employees represent advances made in carrying out the day-to-day operations of the Group and are subject to liquidation upon utilization.

b. Significant contract agreements

In 2008, FCAC has entered into several loan agreements with BDO, resulting to the recognition of an outstanding liability amounting to P100,000,000 and P30,000,000 as of December 31, 2010 and 2009, respectively. These loans are secured by the assignment of receivables of FCAC and the suretyship agreement mentioned above.

In relation to this, the Parent Company and FCAC 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:

- (i) Secures the due and full payment and performance of the obligations incurred by FCAC; and
- (ii) Undertakes with the bank that upon nonpayment or nonperformance of FCAC 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 money and other properties.

The Group has secured noted receivable from its major stockholder. The note was executed in 2008 and secured by a land located at Pulilan, Bulacan,

For the years ended December 31, 2010 and 2009, the Company has not recorded any impairment of receivable relating to the amounts owned by the related parties. The assessment is undertaken through examining the financial position of the related parties and the market in which they operate.

c. Remuneration of key management personnel

The short term benefits of the Directors and other members of key management personnel of the Group amounted to P8,832,000, P3,045,000 and P1,260,000 for the years ended December 31, 2010, 2009 and 2008, respectively.

NOTE 17 - SHARE CAPITAL

	2010		2009	
	Number of Shares	Amount	Number of Shares	Amount
Authorized - P1 par value per share	300,000,000	P300,000,000	300,000,000	P300,000,000
Issued and outstanding	217,993,119	P217,993,119	191,868,445	P191,868,445

Out of the shares outstanding, P10,631,467 is allotted to and fully paid for by the Group's directors, employees and consultants under the Stock Purchase Plan.

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.

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.

Movement in authorized common shares is as follows:

	2010		2009	
	Shares	Amount	Shares	Amount
Listed shares				
at January 1	178,536,602	178,536,602	178,536,602	178,536,602
Additional listed shares	16,767,269	16,767,269	-	-
At December 31	195,303,871	195,303,871	178,536,602	178,536,602
Issued but not listed shares				
at January 1	13,331,843	13,331,843	-	-
Issued during the year	8,257,405	8,257,405	7,931,843	7,931,843
Warrants exercised	1,100,000	1,100,000	5,400,000	5,400,000
at December 31	22,689,248	22,689,248	13,331,843	13,331,843
Unissued warrants				
At January 1	14,600,000	14,600,000	20,000,000	20,000,000
Warrants issued and Exercised	(1,100,000)	(1,100,000)	(5,400,000)	(5,400,000)
At December 31	13,500,000	13,500,000	14,600,000	14,600,000
Unissued shares	68,506,881	68,506,881	93,531,555	93,531,555
Authorized shares	300,000,000	300,000,000	300,000,000	300,000,000

The Parent Company allotted P6,500,000 warrants to its directors and officers. Warrants exercised during the year, in exchange for common shares amounted to P1,100,000 and P5,400,000 in 2010 and 2009, respectively.

NOTE 18 - RESERVES

	<u>2010</u>	<u>2009</u>
Share premium	P675,502,960	P306,832,220
Revaluation surplus (Note 12)	545,170,826	-
Retained earnings		
Appropriated	19,000,000	19,000,000
Unappropriated (Note 29)	119,958,011	28,601,106
	<u>P1,359,631,797</u>	<u>P354,433,326</u>

Share premium arises from amount subscribed for share capital in excess of nominal value. The Parent Company issued additional 26,125,674 and 13,331,843 shares of stock at a premium in 2010 and 2009, respectively, which resulted to an aggregate increase in share premium of P368,670,740 and P306,832,220, in 2010 and 2009, respectively.

The revaluation surplus arose from on the revaluation of the FCA that was carried at revalued amounts when revalued assets are sold, the portion of the revaluation surplus reserve that relates to that asset is transferred directly to retained earnings (see Note 12).

The appropriation of retained earnings pertains to the approval of FCAC's BOD on March 10, 2009 to appropriate accumulated retained earnings amounting to P19,000,000 for future dividend declaration.

Unappropriated retained earnings pertain to all other gains and losses and transactions with owners.

NOTE 19 - EARNINGS PER SHARE

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Profit attributable to equity holders of the Parent Company	P90,813,545	P35,689,967	P8,737,119
Weighted average number of shares outstanding	199,713,763	191,868,445	150,447,168
	<u>P0.45</u>	<u>P0.19</u>	<u>P0.06</u>

NOTE 20 - COST OF SALES

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Inventories at January 1	P37,749,478	P 34,150,232	P 16,323,174
Purchases	1,354,091,313	869,565,517	661,767,964
Cost of goods available for sale	1,391,840,791	903,715,749	678,091,138
Inventories at December 31	(77,536,576)	(37,749,478)	(34,150,232)
	<u>P1,314,304,215</u>	<u>P865,966,271</u>	<u>P643,940,906</u>

NOTE 21 - OPERATING EXPENSES

	2010	2009	2008
Salaries, wages and other employee benefits	P 39,381,432	P20,305,447	P17,189,772
Advertising and promotions	22,391,910	6,988,171	9,693,836
Deliveries	19,397,955	30,661,029	37,404,836
Depreciation and amortization (Note 11,12)	17,365,336	5,431,998	4,295,220
Office and farm supplies	12,968,382	1,395,053	981,065
Professional fees	10,369,062	4,798,941	6,493,742
Rental	9,706,451	937,873	529,739
Communications, light and water	9,453,971	5,109,309	3,970,706
Repairs and maintenance	8,503,061	1,483,630	6,260,387
Transportation and travel	7,868,705	2,880,761	4,779,106
Representation and entertainment	5,418,327	1,302,684	1,812,885
Impairment loss on trade and other receivables	3,215,517	-	-
Taxes and licenses	3,035,572	6,376,881	5,180,823
Security services and other contracted services	2,338,304	2,013,216	1,021,000
SSS, Philhealth and Pag-ibig contributions	803,104	1,099,203	1,477,150
Insurance	470,911	183,631	282,785
Bank charges	277,556	630,875	3,831,949
Commission	277,311	629,454	472,993
Pension expense (Note 15)	217,430	207,920	141,998
Research and development	78,989	218,313	162,358
Miscellaneous	2,953,742	2,389,503	4,183,805
	<u>P176,493,028</u>	<u>P95,043,892</u>	<u>P110,166,155</u>

NOTE 22 - OTHER INCOME, NET

	2010	2009	2008
Gain on changes in fair value of biological assets	P 59,380,361	P-	P-
Rental income	309,840	-	137,480
Realized foreign exchange gain (loss), net	(78,285)	(4,126)	28,087
Others income (expenses)	(2,445,848)	213,616	3,321,622
	<u>P 57,166,068</u>	<u>P 209,490</u>	<u>P 3,487,189</u>

NOTE 23 - LEASES

The Group 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 and expired on December 31, 2009 at a monthly rental of P50,000. The lease includes an annual 10% escalation clause at the lessor's discretion. The Group did not renew this lease in 2010.

NOTE 24 - INCOME TAXES

a.) Details of provision for income tax for the year are as follows:

	2010	2009	2008
Current	P 24,185,597	P4,637,816	P4,763,434
Deferred	17,050,934	50,864	-
	<u>P41,236,531</u>	<u>P4,688,680</u>	<u>P4,763,434</u>

b.) Details of deferred tax assets and liabilities as of December 31 are as follows:

	2010	2009
Deferred tax assets		
Pension liability	P 964,655	P225,777
Impairment loss on trade receivables	285,193	-
	<u>P1,249,848</u>	<u>P225,777</u>
Deferred tax liabilities		-
Change in fair value of trademark	P233,624,235	-
Change in fair value of biological assets	17,814,108	-
	<u>P251,438,343</u>	<u>P-</u>

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

	2010	2009	2008
Profit before tax	<u>P134,787,996</u>	<u>P40,378,648</u>	<u>P13,500,553</u>
Provision for income tax computed at the statutory tax rate of 30% in 2010 and 2009 and 35% in 2008	P40,436,399	P12,113,594	P4,725,194
Tax effects of -			
Interest income subject to final tax	(28,510)	(1,151,271)	(12,817)
Tax arbitrage	-	1,582,997	42,341
Other nondeductible items, net	<u>828,642</u>	<u>(7,856,640)</u>	<u>8,716</u>
Provision for income tax	<u>P41,236,531</u>	<u>P4,688,680</u>	<u>P4,763,434</u>

d.) New Tax Laws

Republic Act (RA) No. 9337

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, 2010;
- ii. Revised invoicing and reporting requirements for VAT;
- iii. Expanded scope of transactions subject to VAT; and
- iv. Provided thresholds and limitations on the amounts of VAT credits that can be claimed.

On November 25, 2010, the Bureau of Internal Revenue issued Revenue Regulations (RR) No. 15-2010 which prescribes additional procedural and/or documentary requirements in connection with the preparation and submission of financial statements accompanying the tax returns. Under the said RR, companies are required to disclose, in addition to the disclosures mandated under PFRS and such other standards and/or conventions that may therefore be adopted, in the Notes to the Financial Statements, information on taxes, duties and license fees paid or accrued during the taxable year. These additional disclosure requirements are disclosed in the separated financial statements of the Parent Company and the subsidiaries.

NOTE 25 - FINANCIAL INSTRUMENTS

	2010		2009	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash on hand and in banks	P 73,776,402	P 73,776,402	P152,186,392	P152,186,392
Trade and other receivables (Note 7)	294,329,640	294,329,640	239,196,808	239,196,808
Note receivable (Note 17)	58,000,000	58,000,000	58,000,000	58,000,000
Advance to related parties (Note 16)	41,756,983	41,756,983	50,699,965	50,699,965
	<u>P467,863,025</u>	<u>P467,863,025</u>	<u>P500,083,165</u>	<u>P500,083,165</u>
Financial liabilities				
Trade and other payables (Note 13)	P 53,698,096	P 53,698,096	P50,398,309	P50,398,309
Interest loans and borrowings (Note 14)	519,442,200	519,442,200	166,734,989	166,734,989
Advances from related parties (Note 16)	215,208	215,208	3,182,227	3,182,227
	<u>P573,355,504</u>	<u>P573,355,504</u>	<u>P220,315,525</u>	<u>P220,315,525</u>

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 maturities of the financial instruments.

NOTE 26 - BUSINESS ACQUISITIONS

Acquisitions during the period

On February 1, 2010, Parent Company incorporated QLTS to cater the logistics requirements of the Group. Total consideration paid in exchange in 2010 amounted to P510,000, owning 51% of its outstanding and issued shares.

On June 2, 2010, Parent Company established FFCI, investing P510,000 for 51% of its outstanding and issued shares.

On September 30, 2010, the Parent Company acquired 100% interest in HAPC for P12,106,955. HAPC is a domestic corporation engaged in the import and export of goods, such as agricultural products on a wholesale basis, and licensed to export fresh mangoes to Japan and Korea.

On October 11, 2010, the Parent Company obtained 51% ownership in WTX and SSIC for US\$160,000 and US\$40,000 or P6,943,520 and P1,735,880, respectively. A Memorandum of agreement entered into by both WTX and SSIC stipulates that Parent Company will infuse fresh capital funds amounting to \$1,340,000 and \$960,000, respectively.

Details of FV of identifiable assets and liabilities acquired, purchase consideration and goodwill are as follows:

	HAPC		WTC		SSIC	
	Recognized on Acquisition	Carrying Value	Recognized on Acquisition	Carrying Value	Recognized on Acquisition	Carrying Value
Cash on hand and in bank	P7,914,564	P7,914,564	P1,059,727	P1,059,727	P598,487	P598,487
Trade and other receivables	-	-	76,384,088	76,384,088	7,543,600	7,543,600
Advances to related parties	-	-	88,286,269	88,286,269	-	-
Prepayments and other current assets	-	-	697,498	697,498	-	-
Trade and other payables	-	-	(163,290,653)	(163,290,653)	(6,588,250)	(6,588,250)
FV of net identifiable assets and liabilities	P7,914,564	P7,914,564	P3,136,929	P3,136,929	P1,553,837	P1,553,837
Percentage of ownership	100%		51%		51%	
Share in net assets	P7,914,564		P1,599,834		P792,457	

Acquisitions completed in prior periods

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, 2009	40%
Parent Company	IMEX	January 1, 2009	100%

Accordingly, the 2009 consolidated financial statements include the results of operations of FCAC and FG for the year ended December 31, 2009.

On September 9, 2008 FG established FGP, to manage farm projects in Palawan, with an initial capital of P1.25 million in exchange for 51% ownership. FGP started commercial operation in 2010.

On March 23, 2009, IMEX established OBT, to manage mushroom culture, with an initial capital of P318,675 in exchange for 51% ownership. OBT started commercial operation in 2010.

NOTE 27 - NON-CASH TRANSACTIONS AND FINANCING FACILITIES

During the year, the Company issued 2,655,00 shares of stock in exchange for an equipment with a fair value of P37,170,000. Price per share during the exchange was P14, which resulted in an additional share premium of P34,515,000.

NOTE 28 - REGISTRATION WITH BOARD OF INVESTMENTS (BOI)

On September 20, 2010 IMEX was granted registration with the BOI as a new export producer of frozen fruits, root crops and leafy vegetables, a non-pioneer activity. As registered enterprise, the entity are subject to some requirements and are entitled to certain tax and non-tax incentives which are considered in the computation of the provision for income tax.

Under the terms of registration and subject to certain requirements, i.e. only income generated from the registered activity shall be entitled to ITH incentives, IMEX is entitled to the following fiscal and non-fiscal incentives:

- (a) Income tax holiday (ITH) for a period of four (4) years from September 2010;
- (b) For the first five (5) years of operation, additional deduction from taxable income of fifty percent (50%) of the wages corresponding to the increment in number of direct labor, if project meets prescribed ratio of capital requirement to the number of workers set by BOI; and provided that this shall not be availed simultaneously with the ITH.
- (c) tax credit equivalent to the national internal revenue taxes and duties paid on raw materials and supplies and semi-manufactured products used in producing its export product and forming part thereof for a period of ten (10) years from start of commercial operations.
- (d) simplification of customs procedures for the importation of equipment, spare parts, raw materials and supplies.
- (e) access to Customs Bonded Manufacturing Warehouse (CBMW) subject to the Custom rules and regulations provided the enterprise exports at least seventy percent (70%) of production output.
- (f) exports by IMEX of its registered export products shall be exempted from wharfage dues, and any export tax, duty, import and fee for a period of ten (10) years from date of registration.
- (g) importation of consigned equipment for a period of ten (10) years from date of registration, subject to posting of re-export bond.
- (h) exemption from taxes and duties on imported spare parts and consumable supplies for export producers with CBMW exporting at least seventy percent (70%) of production.

In addition, IMEX may qualify to import capital equipment, spare parts and accessories at zero percent (0%) duty from date of registration up to June 16, 2011 (EO 528).

NOTE 29 - RESTATEMENT

The following 2009 financial statement balances were restated to record effects of the transactions that were not recorded on the same year.

	As previously stated	Adjustments	As restated
Intangibles	P19,509,913	P206,810	P19,716,723
Trade and other receivables	239,196,808	(227,209)	238,969,099
Retained earnings - unappropriated	28,621,505	(20,399)	28,601,106