

SEC Registration Number

1 4 8 - 1 2

Company Name

C H E M I C A L I N D U S T R I E S O F T H E P H I L I P P I N E S , I N C . A N D S U B S I D I A R I E S

Principal Office (No./Street/Barangay/City/Town/Province)

8 5 1 A . A R N A I Z A V E N U E , S A N L O R E N Z O , M A K A T I C I T Y

Form Type

1 7 - Q

Department requiring the report

C H O

Secondary License Type, If Applicable

N A

COMPANY INFORMATION

Company's Email Address

chemphilgroup@gmail.com

Company's Telephone Number/s

819-5531

Mobile Number

N/A

No. of Stockholders

27

Annual Meeting Month/Day

3rd Thursday of Sept.

Fiscal Year Month/Day

December 31

CONTACT PERSON INFORMATION

The designated contact person MUST be an Officer of the Corporation

Name of Contact Person

ALEXANDRA G. GARCIA

Email Address

aggv21@gmail.com

Telephone Number/s

818-8711

Mobile Number

09175264738

Contact Person's Address

851 A. Arnaiz Avenue, Brgy. San Lorenzo, Makati City

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

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

SEC Number 14812
FILE Number

CHEMICAL INDUSTRIES OF THE PHILS., INC.
(Company's Full Name)

851 Antonio Arnaiz Avenue, Makati City
(Company's Address)

(632) 818-87-11
(Telephone Number)

DECEMBER 31
(Fiscal Year Ending)
(month & day)

SEC FORM 17-Q
Form Type

Amendment Designation (If applicable)

September 30, 2017
Period Ended Date

(Secondary License Type and File Number)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended September 30, 2017
2. Commission identification number 14812 3. BIR Tax Identification No. 047-000-110-888
4. Exact name of issuer as specified in its charter

CHEMICAL INDUSTRIES OF THE PHILIPPINES, INC.

5. Province, country or other jurisdiction of incorporation or organization
Metro Manila, Philippines
6. Industry Classification Code: (SEC Use Only)
7. Address of issuer's principal office Postal Code
Chemphil Bldg., 851 A. Arnaiz Ave., Legaspi Village, Makati City **1229**
8. Issuer's telephone number, including area code
(063) (02) 8185206
9. Former name, former address and former fiscal year, if changed since last report
Not applicable

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

Title of each Class	Number of shares of common stock outstanding and of debt
amount outstanding	
<u>Common Stock, P10 par value</u>	<u>10,296,601 common shares</u>

11. Are any or all of the securities listed on a Stock Exchange?
Yes [] No []
If yes, state the name of such Stock Exchange and the class/es of securities listed therein:
Philippine Stock Exchange **Common shares**

12. Indicate by check mark whether the registrant:

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

Yes [] No []

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

Yes [**X**] No []

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

The unaudited Consolidated Financial Statements of Chemical Industries of the Philippines, Inc. (CIP) for the quarter ended September 30, 2017 are incorporated herein by reference.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation for the quarter ended September 30, 2017.

1. Plan of operation

For the next twelve months CIP, the parent company, will continue with its leasing of office space to related and outside parties.

CIP's subsidiaries:

CAWC Inc. (CAWC)

The Company has ceased its manufacturing and trading operations.

Kemwater Philippines Corp. (KPC)

The Company has ceased its manufacturing and trading operations.

Chemphil Manufacturing Corp. (CMC)

The Company has ceased its manufacturing and trading operations.

LMG CHEMICALS CORP. (LMG)

LMG has ceased its trading operations.

The Group has no plans to raise additional funds during the next twelve months.

The Group has no intention to perform product research and development.

There is also no plan to purchase or sell any significant equipment.

There will be no changes in the number of employees during the year.

2. Management's Discussion and Analysis

A. Results of Operation

Consolidated revenue for the 3rd quarter of 2017 amounted to P1.9 million, 6% lower than the third quarter 2016 consolidated revenue of P2.0 million.

Consolidated operating expenses for the interim period amounted to P5.8 million, 83% lower than the third quarter of 2016 of P34.6 million.

The Company incurred a consolidated net loss of P3.9 million in the third quarter of 2017 versus the P33.0 million consolidated net loss in the same period of last year.

The following are accounts for the quarter ended September 30, 2017 which have material changes versus the same period in 2016:

	Jul-Sep 2017 (P'000)	% Fav (Unfav)	Jul-Sep 2016 (P'000)
Operating expenses	(5,782)	-83%	(34,769)
Interest income - net	15	-105%	(274)
Other Income(expenses) - net	(2)	-118%	11

- a. Operating expenses - the decrease was due to the payment of capital gains tax in 2016
- b. Interest income (net) - the decrease was due to the full settlement of CAWC's notes payable in the last quarter of 2016.
- c. Other income – there were no sales of scrap in the third quarter of 2017 unlike in the same period of 2016.

Below are the key performance indicators used by the Company to determine its profitability:

	Jul-Sep 2017	Jul- Sep 2016
Gross profit (loss) margin	1.00	1.00
Rate of return on revenues	(2.04)	(16.27)
Net income (loss) to stockholders' equity	(0.004)	(0.04)

Formulae:

Gross profit margin = Gross profit/ Revenues

Rate of return on revenues = Net income after tax/ Revenues

Net income to stockholders' equity = Net income after tax/Stockholders' equity

The gross margins in the third quarter of 2017 and 2016 were equivalent to the total revenues from rental income. No cost of sales/revenues were considered in determining the gross margins coming purely from rental collections.

Rate of return in the third quarter this year decreased to a negative 204% from negative 1,627% in the same period last year. The previous year had a big loss mainly due to the capital gains tax payment.

The ratio of net loss to equity in the third quarter of 2017 went down to 0.4% from 4% in the same period of 2016. Last year's ratio was higher due to the huge loss during the quarter.

B. Financial Condition

Consolidated assets amounted to P1,199.1 million and P1,218.3 million as of September 30, 2017 and December 31, 2016, respectively. Consolidated current assets amounted to P145.0 million as of September 30, 2017 versus P163.4 million as of December 31, 2016.

Consolidated liabilities amounted to P318.1 million as of September 30, 2017, slightly lower than the December 2016 balance of P322.6 million. Stockholders' equity stood at P881.0 million and P895.7 million as of September 30, 2017 and December 31, 2016, respectively.

Below are the September 30, 2017 balance sheet accounts with material changes as compared with the December 31, 2016 balances:

	Sep 2017 (P'000)	% Inc (Dec)	Dec. 2016 (P'000)
Cash and cash equivalents	48,841	-30%	69,281
Receivables	5,014	-11%	5,651
Other current assets	1,769	42%	1,249
Property, plant & equipment - at cost	2,971	-12%	3,373
Due to related parties	1,326	19%	1,114
Accrued retirement benefits payable	289	-89%	2,608

- a. Cash & cash equivalents – the decrease was due to the payments for operating expenses and settlement of obligations.
- b. Receivables – the decrease was due to the lower revenue in 2017 versus the prior year
- c. Other current assets – the increase was due to the bigger prepaid expenses in 2017
- d. Property, plant & equipment - net, at cost – the decrease was due to the depreciation of the assets.
- e. Due to related parties – the increase was due to the inter-company borrowings.
- f. Accrued retirement benefits payable – the decrease was due to the payment of retirement benefits

Below are the key performance indicators used by the Company to determine its liquidity and solvency:

	Sep 2017	Dec 2016
Current ratio	1.40:1	1.54:1
Debt-to-equity ratio	0.36:1	0.36:1

Formulae:

Current ratio = Current assets/Current liabilities
Debt to equity ratio = Total liabilities/Stockholders' equity

The current ratio as of September 30, 2017 stood at P1.40, lower than the December 2016 ratio of P1.54, mainly due to the decrease in cash and cash equivalents.

The ratio of debt to equity as of September 30, 2017 remained the same with the December 31, 2016 ratio.

The Company and its subsidiaries are neither affected by seasonality nor cyclicity of interim operations.

The following are the transactions or events that occurred in the third quarter of 2017.

- a. *On September 11, 2017 CIP terminated the Share Purchase Agreement (SPA) with Newmanholdings, Inc. for the sale of its 127,583,458 common shares in LMG representing 65.92% of the total issued and outstanding capital stock of LMG.*

The termination was due to Newmanholdings, Inc's. inability to complete the mandatory tender offer within the date agreed upon under the SPA and Newmanholdings, Inc. was unable to confirm and undertake to CIP when such tender offer shall be completed.

Newmanholdings, Inc. accepted the termination of the SPA and on September 13, 2017 it notified the SEC that it is withdrawing the Tender Offer Report, including any and all supporting documents in relation thereto.

There were no issuances, repurchases and repayments of debt and equity securities during the interim period.

No dividends were declared during the interim period.

The following are the transactions or events that occurred subsequent to the interim period:

- a. *The Board of Directors of CIP, in a special meeting held on October 9, 2017, approved the sale of its 65.92% shareholdings in LMG.*
- b. *On October 20, 2017, CIP entered into a Share Purchase Agreement with Dominic L. Sytin and Robinson W. Siao for the sale of its 65.92% shareholdings in LMG.*

There were no changes in the composition of the issuer during the interim period.

There were no changes in contingent liabilities or contingent assets since the last annual balance sheet date.

There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Company with unconsolidated entities or other persons created during the period.

There are no events that will trigger direct or contingent financial obligations that are material to the Company, including any default or acceleration of an obligation:

The Company is not aware of any trends, demands, commitments, events or uncertainties that would have material impact on its liquidity.

The Company has no knowledge on any events in the future that will have a material effect on the results of its operation nor on its financial condition.

C. Subsidiaries' Results of Operation

CAWC

CAWC had no sales in the third quarters of 2017 and 2016.

CAWC incurred a net loss of P0.8 million during the third quarter of 2017 versus the P7.6 million net loss in the same period of 2016.

Below are the key performance indicators used by CAWC in determining its profitability and liquidity:

	Jul - Sep 2017	Jul - Sep 2016
Gross profit (loss) margin	0	0
Rate of return on sales	0	0
	Sep 2017	Dec 2016
Current ratio	0.005:1	0.001:1

There were no gross profit margin and rate of return on sales in the third quarters of 2017 and 2016 since there were no sales revenues.

The current ratio increased from P0.001 as of December 31, 2016 to P0.005 as of September 30, 2017.

KPC

There were no sales in the third quarters of 2017 and 2016.

KPC posted a net income of P0.3 million in the third quarter of 2017 against a net income of P0.05 million in the same period of 2016.

Below are the key performance indicators used by KPC in determining its profitability and liquidity:

	Jul - Sep 2017	Jul - Sep 2016
Gross profit (loss) margin	0	0
Rate of return on sales	0	0
	Sep 2017	Dec 2016
Current ratio	1.55:1	1.62:1
Debt-to-equity ratio	0.62:1	0.62:1

There were no gross profit margin and rate of return on sales during the third quarters of 2017 and 2016 since there were no sales revenues.

The current ratio as of September 30, 2017 decreased to P1.55 from P1.62 in December 2016.

The ratio of debt to equity as of September 30, 2017 remained the same with the December 31, 2016 ratio.

CMC

CMC also had no sales in the third quarters of 2017 and 2016.

CMC incurred a net loss of P1.8 million in the third quarter of 2017 against the P2.0 million net loss in the same period of 2016.

Below are the key performance indicators used by CMC in determining its profitability and liquidity:

	Jul - Sep 2017	Jul - Sep 2016
Gross profit (loss) margin	0	0
Rate of return on sales	0	0
Net income (loss) to stockholders equity	(0.01)	(0.01)
	Sep 2017	Dec 2016
Current ratio	0.71:1	0.76:1
Debt-to-equity ratio	0.72:1	0.71:1

There were no gross profit margin and rate of return on sales during the third quarters of 2017 and 2016 since there were no sales revenues.

The decrease in current ratio as of September 30, 2017 to P0.71 from P0.76 in December 2016 was due to the decrease in cash and cash equivalents.

The ratio of debt to equity as of September 30, 2017 slightly went up to P0.72 from last year's ratio of P0.71.

LMG

The Company had no sales revenues in the third quarters of 2017 and 2016. It incurred losses of P0.388 million and P0.226 million for the third quarters of 2017 and 2016, respectively.

3. Financial Soundness Indicators

Following are the significant indicators used by the Group to determine its financial soundness:

	Sep 2017	Sep 2016
Asset to Equity ratio	1.64	1.92
Times-Interest Rate Coverage ratio	(262.09)	(119.55)

Book Value per Share	71.00	61.20
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Formulae:

Asset to Equity = Total Assets/Equity Attributable to Parent Company stockholders

Times-Interest Rate Coverage Ratio = EBIT(Earnings before interest and taxes)/total interest expense

Book Value per share = Equity Attributable to Parent Company stockholders/Outstanding shares

Other financial indicators to determine the Group's liquidity, solvency and profitability are considered by the Group as key performance indicators and are already included in the above discussion of the results of operation and financial condition.

PART II – OTHER INFORMATION

A. Reports on SEC Form 17-C

Following are the reports on SEC Form 17-C filed to the Commission for the third quarter of 2017:

Date	Subject
July 7, 2017	Submission of Tender Offer Report (SEC Form 19-1) of Newmanholdings Inc., the buyer of Chemical Industries of the Philippines Inc.'s 65.92% shareholdings in LMG Chemicals Inc.
September 6, 2017	Reply to SEC regarding its request for certain documents and clarifications pertaining to Newmanholdings Inc. Appointment of Alexandra G. Garcia as Chemical Industries of the Philippines, Inc.'s new Compliance and information Officer.
September 12, 2017	Notice to SEC that CIP has terminated its Share Purchase Agreement with Newmanholdings, Inc. for the sale of its 127,583,458 common shares in LMG Chemicals Inc. representing 65.92% of the total issued and outstanding capital stock of LMG.

SIGNATURES

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

Issuer : **CHEMICAL INDUSTRIES OF THE PHILIPPINES, INC.**

Signature and Title :


ALEXANDRA G. GARCIA
Chief Operating Officer

Date

11.7.11


RANDOLPH M. AGUIRRE
Group Controller/Principal Accounting Officer

Date

11.7.11

CHEMICAL INDUSTRIES OF THE PHILIPPINES AND SUBSIDIARIES

Consolidated Statements of Financial Position

	September 2017 (Unaudited)	December 2016 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 3)	48,840,843	69,280,864
Receivables - net (Note 4)	5,013,628	5,650,778
Due from related parties (Note 6)	89,388,491	87,259,376
Other current assets (Note 5)	1,769,282	1,248,588
Total Current Assets	145,012,244	163,439,606
Noncurrent Assets		
Property, plant and equipment		
At revalued amounts	1,009,241,514	1,009,241,514
At cost - net	2,971,489	3,373,284
Other noncurrent assets	41,881,204	42,244,544
Total Noncurrent Assets	1,054,094,207	1,054,859,342
TOTAL ASSETS	1,199,106,451	1,218,298,948
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses	102,437,254	104,797,508
Due to related parties (Note 6)	1,326,451	1,113,694
Total Current Liabilities	103,763,705	105,911,202
Noncurrent Liabilities		
Accrued retirement benefits payable	288,706	2,607,796
Deferred income tax liability - net	214,042,736	214,042,737
Total Noncurrent Liabilities	214,331,442	216,650,533
Total Liabilities	318,095,147	322,561,735
Equity		
Attributable to equity holdings of the Parent Company :		
Capital stock	102,966,880	102,966,880
Additional paid-in capital	16,621,243	16,621,243
Net changes in fair values of available-for-sale financial assets, net of related deferred tax	14,575,814	14,575,814
Revaluation increment on land, net of related deferred income tax	491,733,931	491,733,931
Equity reserves	18,782,113	18,782,113
Remeasurement loss on retirement benefits - net	(8,203,290)	(8,203,290)
Retained earnings	94,624,118	106,902,675
	731,100,809	743,379,366
Less cost of 87 shares held in treasury	870	870
	731,099,939	743,378,496
Noncontrolling interests	149,911,365	152,358,717
Total Equity	881,011,304	895,737,213
TOTAL LIABILITIES AND EQUITY	1,199,106,451	1,218,298,948

CHEMICAL INDUSTRIES OF THE PHILIPPINES AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Unaudited)

	2017 July to September	2017 January to September	2016 July to September	2016 January to September
REVENUE				
Net sales	-	(0)	-	-
Rental	1,899,183	5,686,762	2,028,983	5,944,071
	1,899,183	5,686,762	2,028,983	5,944,071
COST OF SALES AND SERVICES	(0)	0	-	-
GROSS PROFIT (LOSS)	1,899,183	5,686,762	2,028,983	5,944,071
OTHER INCOME (EXPENSES)				
Operating expenses (Note7)	(5,781,595)	(20,459,982)	(34,768,888)	(47,786,722)
Interest - net	14,821	16,442	(273,775)	(759,713)
Others - net	(2,035)	30,870	11,454	1,766,273
	(5,768,809)	(20,412,670)	(35,031,209)	(46,780,162)
LOSS BEFORE INCOME TAX	(3,869,626)	(14,725,908)	(33,002,226)	(40,836,091)
PROVISION FOR INCOME TAX				
Current	-	-	-	-
NET LOSS	(3,869,626)	(14,725,908)	(33,002,226)	(40,836,091)
OTHER COMPREHENSIVE INCOME (LOSS)	-	-	-	-
TOTAL COMPREHENSIVE LOSS	(3,869,626)	(14,725,908)	(33,002,226)	(40,836,091)
Net loss attributable to:				
Equity holdings of the Parent Company	(3,358,161)	(12,278,556)	(32,394,021)	(38,945,714)
Noncontrolling interests	(511,465)	(2,447,352)	(608,205)	(1,890,377)
	(3,869,626)	(14,725,908)	(33,002,226)	(40,836,091)
Total comprehensive loss attributable to:				
Equity holdings of the Parent Company	(3,358,161)	(12,278,556)	(32,394,021)	(38,945,714)
Noncontrolling interests	(511,465)	(2,447,352)	(608,205)	(1,890,377)
	(3,869,626)	(14,725,908)	(33,002,226)	(40,836,091)
Basic/diluted, for net income attributable to equity holdings of the parent	(0.326)	(1.192)	(3.146)	(3.782)

weighted average number of shares of 10,296,601, net of 87 treasury shares

CHEMICAL INDUSTRIES OF THE PHILIPPINES AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholders' Equity (Unaudited)

As of September 30, 2017

	Capital Stock	Additional paid-in capital	Revaluation increment on land, net	Net changes in fair values of available-for-sale investment, net	Equity Reserves	Remeasurement Losses on Retirement Benefit, net	Retained Earnings		Treasury stock	Total	Noncontrolling interests	Total
							Appropriated	Unappropriated				
Balances at January 1, 2017	102,966,880	16,621,243	491,733,931	14,575,814	18,782,113	(8,203,290)	870	106,901,804	(870)	743,378,495	152,358,717	895,737,212
Net income (loss)								(12,278,556)		(12,278,556)	(2,447,352)	(14,725,908)
Balances at September 30, 2017	102,966,880	16,621,243	491,733,931	14,575,814	18,782,113	(8,203,290)	870	94,623,248	(870)	731,099,939	149,911,365	881,011,304

As of September 30, 2016

	Capital Stock	Additional paid-in capital	Revaluation increment on land, net	Net changes in fair values of available-for-sale investment, net	Equity Reserves	Remeasurement Losses on Defined Benefit Plan, net	Retained Earnings		Treasury stock	Total	Noncontrolling interests	Total
							Appropriated	Unappropriated				
Balances at January 1, 2016	102,966,880	16,621,243	491,733,931	13,910,459	18,782,113	(8,203,290)	870	33,283,025	(870)	669,094,361	161,940,165	831,034,526
Net Income (loss)								(38,945,714)		(38,945,714)	(1,890,377)	(40,836,091)
Balances at September 30, 2016	102,966,880	16,621,243	491,733,931	13,910,459	18,782,113	(8,203,290)	870	(5,662,689)	(870)	630,148,647	160,049,788	790,198,435

CHEMICAL INDUSTRIES OF THE PHILIPPINES AND SUBSIDIARIES

Consolidated Statements of Cash Flows (unaudited)

	2017	2017	2016	2016
	July to September	January to September	July to September	January to September
Cash flows from operating activities				
Income (loss) before income tax	(3,869,626)	(14,725,908)	(33,002,226)	(40,836,091)
Adjustments for:				
Depreciation	142,383	401,795	163,299	489,816
Interest expense	-	1,445,347	1,440,344	4,239,307
Loss (gain) on disposal of assets	-	-	(250,000)	(310,886)
Interest income	(14,821)	(1,461,790)	(1,166,569)	(3,479,594)
Operating income before working capital changes	(3,742,064)	(14,340,556)	(32,815,152)	(39,897,448)
Decrease (increase) in :				
Receivables	(591,201)	637,150	(302,726)	(1,021,672)
Due from related parties	201,825	(2,129,115)	(2,609,807)	(3,073,719)
Other current assets	1,000,361	(520,695)	(222,003)	(609,710)
Increase (decrease) in :				
Accounts payable and accrued expenses	(1,125,285)	(2,360,254)	49,885,011	51,090,434
Due to affiliates	497,154	212,757	1,147,678	1,396,057
Accrued retirement benefits payable	(2,269,886)	(2,319,090)	-	-
Cash from operations	(6,029,096)	(20,819,803)	15,083,001	7,883,942
Interest paid	-	-	(239,274)	(822,276)
Income taxes paid	-	-	(104,595)	(396,185)
Interest received	14,821	16,442	211,820	836,739
Net cash flows from operating activities	(6,014,275)	(20,803,361)	14,950,952	7,502,220
Cash flows from investing activities				
Proceeds from (investments in) short-term investments	-	-	-	5,000,000
Decrease(increase) in other noncurrent assets	363,960	363,340	44,152	2,107,219
Proceeds from disposal of asset	-	-	250,000	310,893
Net cash provided by (used in) investing activities	363,960	363,340	294,152	7,418,112
Cash flows from financing activities				
Proceeds from (payment) of :				
Bank loans/notes payable	-	0	(2,659,431)	(3,039,431)
Net cash provided by (used in) financing activities	-	0	(2,659,431)	(3,039,431)
Net increase(decrease) in cash and cash equivalents	(5,650,315)	(20,440,021)	12,585,673	11,880,901
Cash and cash equivalents at beginning of the quarter	54,491,158	69,280,864	3,450,342	4,155,114
Cash and cash equivalents at end of quarter	48,840,843	48,840,843	16,036,015	16,036,015

CHEMICAL INDUSTRIES OF THE PHILIPPINES INC. AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting and Financial Reporting Policies

Basis of Preparation

The unaudited interim consolidated financial statements of the Group have been prepared on a historical cost basis, except for available-for-sale (AFS) financial assets which are measured at fair value and parcels of land classified as property, plant and equipment, which are carried at revalued amounts. The consolidated financial statements are presented in Philippine Peso (Peso), which is the Company's functional and presentation currency. Amounts are presented to the nearest Peso unless otherwise stated.

Statement of Compliance

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

Basis of Consolidation

The unaudited interim consolidated financial statements include the accounts of the Company and its subsidiaries as of September 30 of each year. The financial statements of the subsidiaries are prepared for the same reporting year as those of the Company using uniform accounting policies. These subsidiaries and the effective percentages of ownership as of September 30, 2017, December 31, 2016, and December 31, 2015 of the Company are as follows:

	<u>Percentage of Ownership (%)</u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
CAWC	99.67	99.67	99.67
LMG	65.92	65.92	65.92
CMC	73.93	73.93	73.93
KPC	73.97	73.97	73.97

Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities and generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

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

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 noncontrolling 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 and
- reclassifies the Company's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

Noncontrolling Interests

Noncontrolling interests represent the portion of profit or loss and net assets of the subsidiaries which are not owned, directly or indirectly through subsidiaries, by the Company and are presented separately in the consolidated statement of comprehensive income and consolidated statement of changes in equity, separate from equity attributable to the Company's stockholders.

Noncontrolling interest shares in losses, even if the losses exceed the noncontrolling equity interest in the subsidiary. Changes in the controlling ownership interest, i.e., acquisition of noncontrolling interest or partial disposal of interest over a subsidiary that do not result in a loss of control, are accounted for as equity transactions.

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following new and amended PFRS and Philippine Interpretations based on International Financial Reporting Interpretations Committee (IFRIC) interpretations and amendments to existing Philippine Accounting Standards (PAS) which were adopted as of January 1, 2013.

- Amendments to PFRS 7, *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*, require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set-off in accordance with PAS 32, *Financial Instruments: Presentation*. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format, unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:
 - (a) The gross amounts of those recognized financial assets and recognized financial liabilities;
 - (b) The amounts that are set-off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
 - (c) The net amounts presented in the statement of financial position;
 - (d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
 - i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
 - ii. Amounts related to financial collateral (including cash collateral); and
 - (e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

The amendments affected disclosures only and have no impact on the Group's financial position or performance.

- PFRS 10, *Consolidated Financial Statements*, replaces the portion of PAS 27, *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in Standards Interpretations Committee (SIC) 12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise

significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. A reassessment was performed by the Company on all its subsidiaries in accordance with PFRS 10. Following the reassessment, the Company determined that there are no additional entities that need to be fully consolidated nor are there subsidiaries that need to be deconsolidated.

- PFRS 11, *Joint Arrangements*, replaces PAS 31, *Interests in Joint Ventures*, and SIC 13 *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method. The amendment did not have any impact on the Group's financial position or performance as the Group does not have any such investments.
- PFRS 12, *Disclosure of Interests in Other Entities*, includes all of the disclosures related to consolidated financial statements that were previously in PAS 27, as well as all the disclosures that were previously included in PAS 31 and PAS 28, *Investments in Associates*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The amendment did not have any impact on the Group's financial position or performance.
- PFRS 13, *Fair Value Measurement*, establishes a single source of guidance for fair value measurement. It does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted.

As a result of the guidance in PFRS 13, the Group reassessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. The application of PFRS 13 did not have a material impact on the fair value measurements of the Group. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined.

- Amendments to PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income*, change the grouping of items presented in other comprehensive income (OCI). Items that can be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. The amendment affected the presentation of items of OCI and has no impact on the Group's financial position or performance.
- Amendments to PAS 19, *Employee Benefits*, require all actuarial gains and losses to be recognized in OCI and unvested past service costs to be recognized immediately in profit or loss when incurred.

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

accounting policy to recognize all actuarial gains and losses in OCI and all past service costs in profit or loss in the period they occur.

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

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

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

The transition did not have a significant impact on the consolidated statements of cash flows for the quarter ended September 30, 2017 and the years ended December 31, 2016 and 2015.

Remeasurement loss on retirement benefits at January 1, 2011 was closed to retained earnings. Subsequent to January 1, 2011, remeasurement loss on retirement benefits is separately presented in equity. Net interest cost is still presented as part of "Personnel expenses" under cost of sales and operating expenses.

- Revised PAS 27, *Separate Financial Statements*, as a consequence of the new PFRS 10 and PFRS 12, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment will have no impact on the Group's financial position and performance.
- Revised PAS 28, *Investments in Associates and Joint Ventures*, as a consequence of the new PFRS 11 and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment will have no impact on the Group's financial position and performance.
- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*, applies to waste removal costs ("stripping costs") that are incurred in surface mining activity during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. This new interpretation is not relevant to the Group as it is not engaged in mining operations.

Annual Improvements to PFRS (2009 to 2011 cycle)

The Annual Improvements to PFRS (2009 to 2011 cycle) contain non-urgent but necessary amendments to PFRS. The Group adopted these amendments in 2013.

- PFRS 1, *First-time Adoption of PFRS - Borrowing Costs*, clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with

PAS 23, *Borrowing Costs*. The amendment does not apply to the Group as it is not a first-time adopter of PFRS.

- PAS 1, *Presentation of Financial Statements - Clarification of the Requirements for Comparative Information*, clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the consolidated financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. The amendments will have no impact on the Group's financial position or performance.
- PAS 16, *Property, Plant and Equipment - Classification of Servicing Equipment*, clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The amendment will not have any significant impact on the Group's financial position or performance.
- PAS 32, *Financial Instruments: Presentation - Tax Effect of Distribution to Holders of Equity Instruments*, clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*. The Group expects that this amendment will not have any impact on its financial position or performance.
- PAS 34, *Interim Financial Reporting - Interim Financial Reporting and Segment Information for Total Assets and Liabilities*, clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment affected disclosures only and had no impact on the Group's financial position or performance.

New Accounting Standards, Interpretations and Amendments to Existing Standards Effective Subsequent to December 31, 2013

The Group will adopt the following standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new changes in PFRS to have a significant impact on the consolidated financial statements. The relevant disclosures will be included in the notes to the consolidated financial statements when these become effective.

Effective in 2014

- Amendments to PFRS 10, PFRS 12 and PAS 27: *Investment Entities*, provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that these amendments will be relevant to the Group as the Group will not qualify as an investment entity under PFRS 10.

- Amendments to PAS 32, *Financial Instruments: Offsetting Financial Assets and Financial Liabilities*, clarify the meaning of “currently has a legally enforceable right to set-off” and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments affect presentation only and have no impact on the financial position or performance. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014. The Group expects that this interpretation will not have a significant impact on its financial position or performance.
- Amendments to PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Nonfinancial Assets*, remove the unintended consequence of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units for which impairment loss has been recognized or reversed during the period. These amendments will affect disclosures only and will have no impact on the Group’s financial position or performance.
- Amendments to PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting*, provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendments are not expected to have an impact on the Group’s financial position or performance.
- Philippine Interpretation IFRIC 21, *Levies*, clarifies that an entity recognizes a liability for levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. The Group does not expect that the interpretation will have a material financial impact in future consolidated financial statements.

Effective 2015

Amendments to PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions*, apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans. The Group expects that the adoption of this amendment will not have a significant impact on its consolidated financial statements.

Annual Improvements to PFRS Effective in 2015

The Annual Improvements to PFRSs (2010-2012 cycle) contain non-urgent but necessary amendments to the following standards:

- PFRS 2, *Share-based Payment - Definition of Vesting Condition*, revises the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment does not apply to the Group as it has no share-based payments.
- PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*, clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PFRS 9, *Financial*

Instruments, (or PAS 39, if PFRS 9 is not yet adopted). The Group shall consider this amendment for future business combinations.

- PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*, requires entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. The amendments affect disclosures only and have no impact on the Group's financial position or performance.
- PFRS 13, *Fair Value Measurement - Short-term Receivables and Payables*, clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial. The Group expects that this amendment will not have a significant impact on its consolidated financial statements.
- PAS 16, *Property, Plant and Equipment - Revaluation Method - Proportionate Restatement of Accumulated Depreciation*, clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:
 - a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
 - b. The accumulated depreciation is eliminated against the gross carrying amount of the asset.

The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendment has no impact on the Group's financial position or performance.

- PAS 24, *Related Party Disclosures - Key Management Personnel*, clarifies that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the Company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments affect disclosures only and have no impact on the Group's financial position or performance.
- PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Amortization*, clarifies that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

- a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
- b. The accumulated amortization is eliminated against the gross carrying amount of the asset.

The amendments also clarify that the amount of the adjustment of the accumulated amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the standard.

The amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendments have no impact on the Group's financial position or performance.

The Annual Improvements to PFRSs (2011-2013 cycle) contain non-urgent but necessary amendments to the following standards:

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Meaning of Effective PFRSs*, clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment is not applicable to the Group as it is not a first-time adopter of PFRS.
- PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*, clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The Group expects that the adoption of this amendment will not have a significant impact on its consolidated financial statements.
- PFRS 13, *Fair Value Measurement - Portfolio Exception*, clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment has no significant impact on the Group's financial position or performance.
- PAS 40, *Investment Property*, clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3. The amendment has no significant impact on the Group's financial position or performance.

No Mandatory Effective Date

PFRS 9, *Financial Instruments*, reflects the first and third phases of the project to replace PAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. Work on the second phase, which relate to impairment of financial instruments, and the limited amendments to the classification and measurement model is still ongoing, with a view to replace PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and

its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through OCI or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For liabilities designated as at FVPL using the fair value option, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change relating to the entity's own credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward to PFRS 9, including the embedded derivative bifurcation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

On hedge accounting, PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items, but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a financial instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 may be applied before the completion of the limited amendments to the classification and measurement model and impairment methodology. The Group will not adopt the standard before the completion of the limited amendments and the second phase of the project. The Group expects that the adoption of this standard will not have a significant impact on its consolidated financial statements.

Deferred Effectivity

Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The SEC and the Financial Reporting Standards Council have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective will not have any impact on the consolidated financial statements.

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from the date of acquisition and that are subject to an insignificant risk of change in value.

Cash and cash equivalents exclude any restricted cash (presented as part of "Other noncurrent assets") that is not available for use by the Group and therefore is not considered highly liquid, such as cash in garnished bank accounts.

Financial Instruments

Date of recognition

The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. In the case of regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting. Regular way purchases or sales are purchases or sales of financial assets that require delivery of the assets within the period generally established by regulation or convention in the market place.

Initial recognition of financial instruments

Financial assets and financial liabilities are recognized initially at fair value. Transaction costs are included in the initial measurement of all financial assets and financial liabilities, except for financial instruments measured at fair value through profit and loss (FVPL).

Classification of financial instruments

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

Financial assets are classified as either financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments, and AFS financial assets, as appropriate. Financial liabilities, on the other hand, are classified as either financial liabilities at FVPL or other financial liabilities, as appropriate. The Group determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates this designation at each reporting period.

As of September 30, 2017 and December 31, 2016, the Group's financial assets and financial liabilities consist of loans and receivables, AFS financial assets and other financial liabilities.

Subsequent measurements

The subsequent measurement of financial assets and liabilities depends on their classification as follows:

Loans and receivables

Loans and receivables are nonderivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables.

After initial recognition, loans and receivables are carried at amortized cost using the effective interest rate method, less allowance for impairment, if any. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest method.

Gains and losses are recognized in the consolidated statement of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process. Loans and receivables are included in current assets if maturity is within 12 months from the reporting period. Otherwise, these are classified as noncurrent assets.

Included in their category are the Group's cash in bank and cash equivalents, receivables, due from related parties and other long-term receivables.

AFS financial assets

AFS financial assets are nonderivatives that are either designated in this category or do not qualify to be classified in any of the other categories. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. They include equity investments and other debt instruments. After initial recognition, AFS financial assets that are quoted in an active market are carried at fair value.

The unrealized gains and losses arising from the fair valuation of AFS financial assets are excluded, net of tax, from reported earnings. These unrealized gains and losses are reported in the consolidated statement of comprehensive income. These changes in fair values are recognized in other comprehensive income until the investment is sold, collected, or otherwise disposed of or until the investment is determined to be impaired, at which time the cumulative unrealized gain or loss previously reported in equity are included in profit or loss.

Where the Group holds more than one investment in the same security, these are deemed to be disposed of on a first-in first-out (FIFO) basis. Interest earned or paid on the investments is reported as interest income or expense using the effective interest rate method. Dividends earned on investments are recognized in profit or loss when the right of payment has been established. These financial assets are classified as noncurrent assets unless the intention is to dispose such assets within 12 months from the reporting period.

Included under this category are the Group's AFS financial assets as of September 30, 2017 and December 31, 2016.

Other financial liabilities

This category pertains to financial liabilities that are not held for trading and are not designated as at FVPL upon the inception of the liability. These include liabilities arising from operating (e.g., accounts payable and accrued expenses) and financing (e.g., short and long-term borrowings) activities.

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss presented in the consolidated statement of comprehensive income over the period of the borrowing using the effective interest rate method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period. Accounts payable, accrued expenses, dividends payable and other liabilities are recognized in the period in which the related money, goods or services are received or when a legally enforceable claim against the Group is established. These are measured at amortized cost, normally equal to nominal amount.

Other financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest rate method of amortization (or accretion) for any related premium (or discount) and any directly attributable transaction costs.

As of September 30, 2017 and December 31, 2016, the Group classified its accounts payable and accrued expenses, notes payable and due to related parties as other financial liabilities.

Derecognition of Financial Instruments

Financial assets

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

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

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

Financial liabilities

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

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

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability;
or
- The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Impairment of Financial Assets

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

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence includes observable data that comes to the attention of the Group about loss events such as, but not limited to, significant financial difficulty of the counterparty, a breach of contract, such as a default or delinquency in interest or principal payments, probability that the borrower will enter bankruptcy or other financial reorganization.

a. Assets carried at amortized cost

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and individually or collectively for financial assets that are not individually significant.

If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in the group of financial assets with similar credit risk and characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is recognized are not included in a collective assessment of impairment.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of credit risk characteristics such as industry, past due status and terms.

If there is an objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through the use of an allowance account. The amount of loss, if any, is recognized in profit or loss.

Loans and receivables, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral, if any, has been realized or has been transferred to the Group. If in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance for impairment losses account. If a future write-off is later recovered, the recovery is recognized in the consolidated statement of comprehensive income under "Other income" account. Any subsequent reversal of an impairment loss is recognized in profit or loss under "Provision for (reversal of) impairment losses" account, to the extent that the carrying value of the asset does not exceed its amortized cost at reversal date.

b. Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is carried at cost because its fair value cannot be reliably measured, or a derivative asset that is linked to and must be settled by delivery of such unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

c. AFS financial assets

If an AFS financial asset is impaired, the amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the consolidated statement of comprehensive income, is transferred from equity to profit or loss. Reversals in respect of equity instruments classified as AFS are not recognized in profit or loss. Reversals of impairment losses on debt instruments are reversed through profit or loss if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss. In the case of debt instruments classified as AFS financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of "Interest income" account in profit or loss. If, in subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

'Day 1' Profit or Loss

Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a 'Day 1' profit or loss) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the differences between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' profit or loss amount.

Offsetting Financial Instruments

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

netting agreements, and the related financial assets and financial liabilities are presented gross in the consolidated statement of financial position.

Inventories

Inventories are valued at the lower of cost and net realizable value (NRV). Costs incurred in bringing each inventory item to its present location and condition are accounted for as follows:

- | | | |
|--|---|---|
| Finished goods and semi-processed goods | - | Cost includes direct materials and labor and a proportion of manufacturing overhead costs determined on a moving-average method |
| Merchandise on hand, raw materials, spare parts and factory supplies | - | Cost is determined on a moving-average method |

NRV of raw materials and spare parts and factory supplies is the current replacement cost. NRV of semi-processed goods, merchandise on hand and finished goods is the estimated selling price in the ordinary course of business, less estimated costs of completion, marketing and distribution.

Other Current Assets - Prepaid Taxes

Prepaid taxes represent excess creditable withholding taxes and are deducted from income tax payable on the same year the revenue was recognized. Excess prepaid tax can be carried over in the ensuing years and are carried at cost, net of any impairment loss.

Input Value-added Tax (VAT)

Revenues, expenses, assets and liabilities are recognized net of the amount of VAT, except where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable. Input VAT estimated to be applied within 12 months after the balance sheet date is classified under other current assets; otherwise, these are classified as noncurrent assets.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value, except for parcels of land which are carried at revalued amounts as determined by an independent firm of appraisers using the market data approach.

The net appraisal increment from revaluation, net of deferred income tax, is shown as "Revaluation increment in land" account under the equity section of the consolidated statement of financial position.

Revaluation is made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of reporting period. Any resulting increase in the asset's carrying amount as a result of the revaluation is credited directly to "Revaluation increment in land", net of related deferred income tax liability. Any resulting decrease is directly charged against any related revaluation increment to the extent that the decrease does not exceed the amount of the revaluation increment in respect of the same asset.

Upon disposal of revalued land, the related revaluation increment realized in respect of the latest valuation will be released from the revaluation increment directly to retained earnings.

The initial cost of property, plant and equipment consists of its purchase price, including import duties, taxes, and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property, plant and equipment have

been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to profit or loss in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property, plant and equipment.

Depreciation commences when the asset is ready and available for its intended use. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

	<u>Number of Years</u>
Land improvements	5-10
Buildings, structures and improvements	8-30
Machinery and equipment	3-10
Transportation equipment	3-5
Office furniture and fixtures	1-3

Depreciation ceases at the earlier of the date that the item is classified as held-for-sale in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, and the date the asset is derecognized.

The residual values, useful lives and depreciation method are periodically reviewed and adjusted if appropriate at each reporting period. Fully depreciated property, plant and equipment are retained in the accounts until these are no longer in use.

When property, plant and equipment carried at cost are retired or otherwise disposed of, the cost and the related accumulated depreciation and impairment in value are removed from the accounts and any resulting gain or loss is recognized in profit or loss.

Investment Property

Investment property, which is included under "Other noncurrent assets" account in the consolidated statement of financial position, pertains to parcels of land not used in operations and is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is stated at cost less any impairment in value.

Investment property is derecognized when it has been either disposed of or when it is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment property are recognized in profit or loss in the year of retirement or disposal.

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

Impairment of Nonfinancial Assets

The carrying values of property, plant and equipment and investment property are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets are written down to their recoverable amounts. An asset's recoverable amount 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 values using a pre-tax discount rate that reflect current market assessments of the time value of money and the risks specific to the asset. Any impairment loss is recognized in profit or loss.

An assessment is made at each reporting period as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss.

Capital Stock

Capital stock is measured at par value for all shares issued.

When the shares are sold at a premium, the difference between the proceeds and the par value is credited to the "Additional paid-in capital" account. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received.

Equity Reserves

Equity reserves pertain to the effect of transactions with noncontrolling interest.

Retained Earnings

Retained earnings represent the cumulative balance of net income or loss, dividend distributions, effects of changes in accounting policy and other capital adjustments.

Treasury Shares

The Group's common shares which are reacquired and recorded at cost (treasury shares) are deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's common shares. Any difference between the carrying amount and the consideration received, if any, upon reissuance or cancellation of shares is recognized as additional paid-in-capital. Voting rights related to treasury shares are nullified for the Group and no dividends are allocated to them.

Dividend Distributions

Dividends on common shares are recognized as a liability and deducted from equity when approved by the shareholders of the Group. Dividends for the year that are approved after the end of the reporting period are dealt with as an event after the reporting period.

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 as the fair value of the consideration received less any discount and value-added tax. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

- a. Sales are recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably. Sales are measured at fair value of the consideration received or receivable, excluding Value-Added Tax, and taking into account the amount of any sales discounts and allowances allowed by the Group.
- b. Rental income under operating lease agreements is recognized on a straight-line basis over the term of the lease.

- c. Interest income is recognized as the interest accrues taking into account the effective yield on the asset.

Cost and Expenses

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

Costs of sales

Cost of sales is recognized as expense when the related goods are sold.

Operating expenses

Operating expenses constitute costs of administering the business and selling or distributing the merchandise and are recognized as incurred.

Retirement Benefits Cost

Retirement benefits cost is actuarially determined using the projected unit credit method. This method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each separately to build up the final obligation. The Group accrues pension benefits cost for all regular full-time employees equivalent to one month compensation for every year of service.

Retirement benefit costs comprise the following:

- Service cost;
- Net interest on the net defined benefit liability or asset; and
- Remeasurements of net defined benefit liability or asset.

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

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss and presented in "Retirement benefits cost".

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

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

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

Leases

The Group as lessee

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease expense is recognized in profit or loss on a straightline basis over the lease term.

The Group as lessor

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

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur and presented as "Interest expense" account in the consolidated statement of comprehensive income. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Income Taxes

Current income tax

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

Deferred income tax

Deferred income tax is provided on all temporary differences at the end of reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, including asset revaluations. Deferred income tax assets are recognized for all deductible temporary differences, carry forward benefits of unused tax credits from the excess of the minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) and net operating loss carryover (NOLCO), to the extent that it is probable that sufficient future taxable profit will be available against which the deductible temporary differences and carry forward benefits of unused tax credits from the excess of MCIT over RCIT and unused NOLCO can be utilized.

Deferred income tax assets and liabilities are not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax liabilities are not provided on taxable temporary differences associated with investments in subsidiaries and affiliates.

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled based on the tax rates that have been enacted or substantively enacted at the end of reporting period. Unrecognized deferred income tax assets are remeasured at each reporting period, and are recognized to the extent that it has become probable that sufficient future taxable income will allow all or part of the deferred income tax assets to be recovered.

Income tax relating to items recognized directly in equity is recognized in equity and not in profit or loss.

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

Provisions and Contingencies

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

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 when an inflow of economic benefit is probable.

Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares issued and outstanding after considering the retroactive effect, if any, of stock dividends declared during the year.

Diluted earnings (loss) per share is calculated by dividing the net income (loss) by the weighted average number of ordinary shares outstanding during the year and adjusted for the effects of all dilutive potential common shares, if any.

Events after the Reporting Period

Events after the reporting period that provide additional information about the Group's position at the end of reporting period (adjusting events) are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

Segment Reporting

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit

that offers different products and serves different markets. The Group's asset-producing revenues are located in the Philippines (i.e., one geographical location).

2. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in accordance 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 used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances that are believed to be reasonable as of the date of the consolidated financial statements. While the Group believes that the assumptions are reasonable and appropriate, differences in the actual experience or changes in the assumptions may materially affect the estimated amounts. Actual results could differ from such estimates.

Judgments

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

Determination of the Group's functional currency

The Company and its subsidiaries, based on the relevant economic substance of the underlying circumstances, has determined its functional currency to be the Peso. It is the currency of the primary economic environment in which each entity operates.

Classification of financial instruments

The Group classifies a financial instrument, or its components, on initial recognition as a financial asset, a financial liability, or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the Group's consolidated statement of financial position.

The Group's financial assets are classified as loans and receivables and AFS financial assets while its liabilities are classified as other financial liabilities .

The Group determines the classification at initial recognition and re-evaluates this classification at every reporting period.

Classification of leases

The Group classifies leases as finance or operating lease in accordance with the substance of the contractual agreement and the transfer of the risks and benefits incidental to the ownership of the leased item. Leases where management has determined that the risks and rewards related to the leased item are transferred to the Group are classified as finance lease. On the other hand, leases entered into by the Group where management has determined that the risks and rewards of the leased item are retained with the lessors are accounted for as operating leases. The Group has entered into property leases which are accounted for as operating leases.

Contingencies

- a. The Company and some subsidiaries have pending deficiency tax assessments covering certain years. Management believes that the ultimate outcome of these assessments, if any, would not materially affect the Group's financial position or results of operations.
- b. Some subsidiaries are defendants in various court cases relating to claims for damages and labor claims. It is the opinion of the subsidiaries' management that settlement costs, if any, will not materially affect the subsidiaries' financial position and operating results.

Estimates and Assumptions

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

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

Estimation of allowance for doubtful accounts

The Group evaluates specific balances where management has information that certain amounts may not be collectible. In these cases, the Group uses judgment, based on available facts and circumstances, and based on a review of the factors that affect the collectibility of the accounts including, but not limited to, the age and status of the receivables, collection experience and past loss experience. The review is made by management on a continuing basis to identify accounts to be provided with allowance. These specific reserves are re-evaluated and adjusted as additional information received affects the amount estimated.

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

Therefore, the amount and timing of recorded expense for any period would differ depending on the judgments and estimates made for the year.

Impairment of available-for-sale financial assets

The Group treats available-for-sale financial assets, included under the "Other noncurrent assets" account, as impaired when there has been a significant or prolonged decline in the fair value below their cost (for equity investments) or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgment.

The Group treats "significant" generally as 20% or more of the original cost of investment and "prolonged" as greater than one year. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities. Management has not identified impairment indicators on the Group's AFS financial assets, except for the unquoted equity securities which were fully impaired in the previous years.

Determination of net realizable value of inventories

The Group's estimates of the net realizable values of inventories are based on the most reliable evidence available at the time the estimates are made, of the amount that the inventories are expected to be realized. These estimates consider the fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. A new assessment is made of net realizable value in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is a clear evidence of an increase in net realizable value because of change in economic circumstances, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised net realizable value.

Revaluation of land

The Group's parcels of land included in property, plant and equipment are carried at revalued amounts, which approximate their fair values at the date of the revaluation, less any subsequent accumulated impairment losses. The valuations of land are performed by professionally qualified

independent appraisers. Revaluations are made with sufficient regularity such that the carrying value does not differ materially from that which would be determined using fair value at the reporting period.

On March 28, 2016, the Group obtained appraisal reports covering certain parcels of land and recorded appraisal increases.

Estimation of useful lives of property, plant and equipment

The Group estimates the useful lives of its property, plant and equipment based on the period over which the assets are expected to be available for use. The Group reviews annually the estimated useful lives of property, plant and equipment based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets. It is possible that future results of operation could be materially affected by changes in these estimates brought about by changes in factors mentioned. A reduction in the estimated useful lives of property, plant and equipment would increase depreciation expense and decrease noncurrent assets.

There was no change in the estimated useful lives of property, plant and equipment in 2017 and 2016.

Estimation of provision for impairment of nonfinancial assets

The carrying values of property, plant and equipment and investment properties are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indicators exist, impairment testing is performed. This requires an estimation of the recoverable amount which is the higher of an asset's or cash-generating unit's fair value less cost to sell and value-in-use. Estimating the value-in-use requires the Group to estimate the expected future cash flows from the cash-generating unit and also to choose an appropriate discount rate in order to calculate the present value of those cash flows.

Estimating the fair value less cost to sell is based on the information available to reflect the amount that the Group could obtain as of the end of reporting period. In determining this amount, the Group considers the outcome of recent transactions for similar assets within the same industry.

Estimation of retirement benefits cost

The determination of the obligation and cost of retirement benefits depend on the selection of certain assumptions used by the actuary in calculating such amounts. Those assumptions include among others, discount rates, expected returns on plan asset and salary increase rates. Actual results that differ from the Group's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While the Group believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the retirement expense and obligations.

Recognition of deferred income tax assets

The Group reviews the carrying amounts at each reporting period and adjusts the balance of deferred income tax assets to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred income tax assets to be utilized.

Estimation of provisions

The Group provides for present obligations (legal or constructive) where it is probable that there will be an outflow of resources embodying economic benefits that will be required to settle said obligations. An estimate of the provision is based on known information at reporting period, net of

any estimated amount that may be reimbursed to the Group. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. The amount of provision is being re-assessed at least on an annual basis to consider new relevant information.

3. Cash and Cash Equivalents

This account consists of:

	Sept. 2017	Dec. 2016
Cash on hand and in banks	₱18,840,843	₱69,280,864
Short-term investments	30,000,000	-
	₱48,840,843	₱69,280,864

4. Receivables

This account consists of:

	Sept. 2017	Dec. 2016
Trade	₱4,088,036	₱3,169,035
Others	53,698,956	55,255,107
	57,786,992	58,424,142
Less allowance for doubtful accounts	(52,773,364)	(52,773,364)
	₱5,013,628	₱5,650,778

5. Other Current Assets

This account consists of:

	Sept. 2017	Dec. 2016
Spare parts and factory supplies	₱10,852,159	₱10,852,159
Prepaid tax	7,767,602	8,213,224
Input VAT	6,676,843	7,306,590
Prepaid expenses	408,023	20,665
Others	1,732,257	523,552
	27,436,884	26,916,190
Less: allowance for probable losses	(14,815,443)	(14,815,443)
allowance for inventory loss	(10,852,159)	(10,852,159)
	₱1,769,282	₱1,248,588

6. Related Party Transactions

Enterprises and individuals that directly or indirectly, through one or more intermediaries, control or are controlled by or under common control with the Group, including holding companies, subsidiaries and fellow subsidiaries, are related parties of the Group. Associates and individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the enterprise, key management personnel, including directors and officers of the Group and close members of the family of these individuals, and companies associated with these individuals also constitute related parties. In considering each possible

related entity relationship, attention is directed to the substance of the relationship and not merely the legal form.

The Group has the following significant transactions with related parties:

<u>Related parties</u>	<u>Year</u>	<u>Amounts During the Year</u>	<u>Outstanding Balances</u>	<u>Terms</u>	<u>Conditions</u>
Due from related parties					
<i>Petrochemicals Corporation of Asia-Pacific (Petrocorp)</i>					
Interest income	2017	-	P1,032,321	Noninterest-bearing; due and demandable	Unsecured, with allowance for doubtful account of P1,032,321
	2016	-	1,032,321		
Others	2017	-	7,485,778	Noninterest-bearing; due and demandable	Unsecured, with allowance for doubtful account of P7,485,778
	2016	-	7,485,778		
<i>Directors and Stockholders</i>					
Advances against future dividends	2017		87,271,021	-do-	Unsecured, with allowance for doubtful account of P2,520,710
	2016		87,271,021	-do-	
<i>VIBI</i>					
Rent income	2017	56,700	-		
	2016	75,600	-		
Shared services fee	2017	0	-		
	2016	3,750	-		
<i>Other Affiliates</i>					
Others	2017	-	4,638,180	Noninterest-bearing/ due and demandable	Unsecured, with allowance for doubtful account P5,460
of	2016	-	2,509,065		
Subtotal	2017		100,427,300		
Less allowance for doubtful accounts			(11,038,809)		
Net			P 89,388,491		
Subtotal	2016		98,298,185		
Less allowance for doubtful accounts			(11,038,809)		
Net			P 87,259,376		
Due to related parties					
<i>VIBI</i>					
Premium payable	2017	-	-	Noninterest-bearing	Unsecured
	2016	-	2,061	-do-	-do-
Advances	2017	-	607,019	-do-	-do-
	2016	-	607,019	-do-	-do-
Reimbursable expenses	2017	78,500	483,865	-do-	-do-
	2016	-	405,365	-do-	-do-
Interest	2017	-	-	-do-	-do-
	2016	890,092	-	-do-	-do-
<i>Other Affiliates</i>					
Others	2017	-	235,567	Noninterest-bearing	Unsecured
	2016	-	99,249	-do-	-do-
Total	2017		P 1,326,451		
Total	2016		P 1,113,694		

7. Operating Expenses

This account consists of:

	Jul – Sept 2017	Jul-Sept 2016
Outside services	₱2,011,997	₱3,280,307
Taxes and licenses	2,066,885	23,291,774
Communication, light and water	518,220	728,585
Transportation and travel	481,801	495,111
Salaries and other compensation	336,848	333,623
Depreciation and amortization	142,383	163,121
Others	223,461	6,476,367
	₱5,781,595	₱34,768,888

8. Financial Risk Management Objectives and Policies

The Group's principal financial instruments as of September 30, 2017 comprise of cash and cash equivalents, receivables, due to/from related parties, AFS financial assets, refundable deposits and notes payable. The main purpose of these financial instruments is to raise funds for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. On an occasional basis, the Group obtains and/or grants advances to related parties depending on the funding requirements of the Group.

It is, and has been during the interim period, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, credit risk and liquidity risk.

The Group does not consider foreign exchange fluctuation as significant risk. The BOD reviews and approves policies for managing these risks and they are summarized as follows:

Cash Flow Interest Rate Risk

The Group's exposure to the risk for changes in market interest rates relates primarily to the Group's notes payable with floating interest rate. The Group relies on budgeting and forecasting techniques to address cash flow concerns. The Group also avails of bank loans with fixed interest rates in order to manage its interest cost.

As of September 30, 2017, the Group has no financial instrument - with one-year maturity period - that is exposed to cash flow interest rate risk.

Credit Risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. Credit risk is minimized and monitored by limiting the Group's associations with business parties with high credit worthiness. Receivables are monitored on an ongoing basis through the Group's management reporting procedures. The Group does not have any significant exposure to any individual customer or counterparty.

The table below shows the maximum exposure to credit risk as of September 30, 2017.

Cash and cash equivalents	P48,840,843
Receivables	5,013,628
Other current assets	1,769,282
Other non-current assets	
Cash in bank restricted for use in operations	906,869
Refundable deposits	574,865
	P57,105,487

The Group's Credit and Collection Department manages the credit quality of financial assets.

High-grade customers are those with sound financial standing, those that pay within their credit terms and require either little or nil collection efforts.

Standard grade customers are those in good financial standing but with the paying habit of settling their accounts outside of regular credit terms which require moderate follow through.

Substandard grade customers have poor financial condition and tend to default thus requiring strict follow through and monitoring.

The table below shows the credit quality by class of financial asset for loan-related balance sheet line, based on the Group's credit rating system.

September 30, 2017

	Neither past due nor impaired				Total
	High grade	Standard Grade	Past due but not impaired	Impaired	
Cash and cash equivalents	P 48,840,843	-	-	-	P 48,840,843
Trade receivables	-	P 242,364	P 1, 579,440	P 2,266,232	4,088,036
Other receivables	-	-	2,973,029	50,725,927	53,698,956
Other current assets		-	1,769,282	25,667,602	27,436,884
Cash in bank restricted for use in operations	906,869	-	-	-	906,869
Refundable deposits	574,865	-	-	-	574,865
Total	P 50,322,577	P 242,364	P 6,321,751	P 78,659,761	P 135,546,453

Liquidity Risk

Liquidity risk is the risk that the Group will be unable to meet its payment when they fall due under normal and stress circumstances. To limit the risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis.

The Group's exposure to liquidity risk is managed by using internally generated funds and proceeds from loans. Further, the Group maintains open credit lines with local banks in order to review and revolve maturing short-term loans.

As of September 30, 2017, the Group's financial liabilities are as follows:

Accounts payable and accrued expenses	P102,437,254
Due to related parties	1,326,451
	<u>P103,763,705</u>

The carrying amounts of cash and cash equivalents, trade and other receivables and payables, and due to/from related parties approximate their fair values because of their short-term nature.

The Group has no investments in foreign securities.

The Group has no foreign currency denominated liabilities as of September 30, 2017.

There were no changes in the financial risk exposure of the Group that would materially affect its financial condition and results of operation.