SEC Number **CS200319138**
File Number

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

(Company's Full Name)

**1205, 1206 & 1405 East Tower PSEC Exchange Rd.**
**Ortigas Center Pasig City**

(Company's Address)

**635-5241 to 44**

(Telephone Number)

**December 31**

(Calendar Year Ending)
(month & day)

**SEC FORM 17-Q**

(Form Type)

(Amendment Designation if applicable)

**For the Six Months Ended June 30, 2014**

(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 **June 30, 2014**

2. Commission identification number **CS200319138**

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

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

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

6. Industry Classification Code: (SEC Use Only)

7. **1205/1206/1405 East Tower PSEC Exchange Rd. Ortigas Center Pasig City** **1605**
   Address of issuer's principal office Postal Code

8. **635-5241 to 44**
   Issuer's telephone number, including area code

9. **Not Applicable**
   Former name, former address and former fiscal year, if changed since last report

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

| Title of each Class | Number of shares of common stock outstanding and amount of debt outstanding |
|---|---|
| **Common shares, P1.00 Par Value** | **1,499,712,463 shares** |

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

    Yes [ / ] No [ ]

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

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

12. Indicate by check mark whether the registrant:

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

Yes [ / ] No [ ]

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

Yes [ / ] No [ ]

## PART I – FINANCIAL INFORMATION

### Item 1. Financial Statements

The unaudited financial statements of Alliance Select Foods International, Inc. (the "Company" or "Parent Company") and its Subsidiaries (collectively referred to as the "Group") as of and for the six months ended June 30, 2014 (with comparative figures as of December 31, 2013 and for the period ended June 30, 2013) and Selected Notes to the Consolidated Financial Statements is hereto attached as Annex "A".

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

### Item 2. Management's discussion and analysis of Financial Condition and Results of Operations.

The following discussions should be read in conjunction with the attached unaudited financial statements of Alliance Select Foods International, Inc. (the "Company" or "Parent Company") and its Subsidiaries (collectively referred to as the "Group") as of and for the six months ended June 30, 2014 (with comparative figures as of December 31, 2013 and for the period ended June 30, 2013).

The table below shows the comparisons of key operating results for the six months period ended June 30, 2014 versus same period in 2013.

| | For the Six Months Ended June 30 | |
|---|---|---|
| **In USD'000** | **2014** | 2013 |
| **Revenue - net** | **42,554** | 45,245 |
| **Gross Profit** | **5,101** | 4,312 |
| **Selling and Administrative Expenses** | **3,810** | 3,974 |
| **Other Income** | **1,031** | 1,009 |
| **Other Expenses** | **103** | 78 |
| **Finance Costs** | **912** | 841 |
| **Profit (Loss) Before Tax** | **1,422** | 510 |
| **Income Tax Expense (Benefit)** | **437** | 267 |
| **Profit (Loss) for the period** | **984** | 243 |
| **Attributable to:** | | |
| Equity holders of the parent | **576** | 421 |
| Non-controlling interest | **408** | (178) |
| | **$984** | $243 |

### RESULTS OF OPERATIONS
**Six months Ended June 30, 2014 versus June 30, 2013**

The Company's operational turnaround, primarily in its canned tuna operations, continued to gain momentum as Alliance experienced another profitable quarter. As a result, profitability in the first half of the year is more than three times the corresponding period last year. The Group posted a net income before tax of $1.4 million, 178% or $911 thousand higher than last year's figure of $510 thousand. After taking into account the income tax provision of $437 thousand, the Group realized a net income of $984 thousand versus $243 thousand in the corresponding period last year.

Gross profit margins increased considerably to 12% in the first six months this year versus 9.5% last year. The company was able to leverage its global marketing reach to command higher gross profit margins by selling its products in markets with higher prices.

Meanwhile, Alliance's smoked salmon division continued to make inroads into new markets and consolidate its position as a preferred vendor for its clients. All the four subsidiaries in the division experienced an increase in sales over the same period in 2013. And with continued investments, especially in the company's marine farms in New Zealand, Alliance projects to reap benefits well into the future.

**Financial Condition, Liquidity, and Capital Resources**
**June 30, 2014 vs. December 31, 2013**

The Group's Total Assets grew by $21.2 million from $69.5 million in December 31, 2013 to $90.7 million as of June 30, 2014. The increase came mainly to the increase in Cash Restricted, Trade Receivable and Inventories. Cash Restricted pertains to the monies from private placement which was placed under escrow account. Trade receivable grew by 19% of which 80% is current. Inventories increased by 36% due to abundant supply of fish and increase in production of salmon products. These increases were financed thru bank borrowings. Long-term loan amortization continued to be paid as scheduled. Retained Earnings has likewise increased on account of the net income for the first semester.

The Group's total liability to equity ratio as of June 30, 2014 improved to 1.20:1 from 1.51:1 in December 31, 2013.

**Plan of Operation**

(a) The Company does not foresee any cash flow or liquidity problem over the next twelve (12) months. As of June 30, 2014 and December 31, 2013, the Company was in compliance with its loan covenant on debt-equity ratio. The Company is not aware of any material off-balance sheet transactions, arrangements, obligations (including contingent obligations) and other relationship of the Company with entities or other persons created during the reporting period that would have significant impact on the Company's operations and/or financial condition.

As of June 30, 2014, there were no material events or uncertainties known to management that had a material impact on past performance or that could have a material impact on the future operations, in respect of the following:

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

(b) The Company does not foresee any product research and development to be performed for the next twelve months.

(c) The Company is currently investing in backward integration into fishing which, as necessary would requires purchase and refurbishment of fishing vessels.

(d) The Company does not expect any significant changes in the number of employees for the next twelve months.

**Material Changes in Financial Statements**
**(Increase/Decrease of 5% or more versus the same period in 2013)**

**Income Statements**
**Six months ended June 30, 2014 versus the same period in 2013.**

6% decline in Net Revenue came from the tuna operations due to lower selling price. Selling price in canned tuna dropped due to significant decrease in fish cost.

Cost of Sales decreased by 9% attributable to lower fish cost.

18% growth in Gross Profit was because of higher sales volume and selling price of the salmon products.

32% increase in Other Non-Operating Expense owing to the bank charges incurred during the period.

Finance Costs was higher by 8% due to additional borrowings to finance the working capital requirements.

30% decrease in Share in Equity in Net Earnings of Associates was caused by the lower net income of AMHI during the period.

262% increase in Share in Equity in Net Earnings of Joint Ventures due to net income of FDCP and WCFI during the 1st semester.

64% higher Income Tax Expense due to the income tax provision of Spence & Co., Ltd. and tuna operations.

**Balance Sheets**
**As of June 30, 2014 versus December 31, 2013**

12% increase in Cash and Cash Equivalents arose from the higher ending cash balance of Spence & Co. Ltd.

100% increase in Cash Restricted. This pertains to the monies from private placement which was placed under escrow account.

19% upturn in Trade and other receivables was on account of the increase in trade receivable of which 71% is current.

9% increase in Due from Related Parties was due to advances made to WCFI and interest charged to AMHI.

36% increase in Inventories arising from increased capacity utilization rate of salmon and tuna plants.

39% decrease in Biological assets due to lower value of smolts and the shark attack event.

44% increase in Prepayments & Other Current Assets arising from advances extended by ASFII to WCFI to be liquidated against fish deliveries.

13% increase in Investment in Associates was due to net income earned of AMHI during the period.

194%growth in Investment in Joint Venture due to additional investment made to WCFI in the form of the fishing vessel at its appraised value and profit realized of FDCP and WCFI during the 1st semester.

20% decline in Deferred Tax Assets as settlement for the income tax payable of the tuna operations during the period.

6% increase in Other Non-current Assets was on account of additional lease deposit and increase in input VAT.

Trade and Other Payables grew by 39%, the Group maximize its credit term with the local fish and trade suppliers.

19% increase in Loans Payable due to additional availments to finance its working capital requirements.

Income Tax Payable dropped by 92% due to payment of income tax due in 2013 of the Indonesia plant.

100% increase in Due to related parties due to advances of Akaroa to shareholders .

11% decrease in Loans payable – net of current portion due to payment of scheduled loan amortization.

Share Capital increased by 43% due issuance of 430,286,226 shares of stocks thru private placement.

73% increase in Reserves mainly due issuance of 430,286,226 shares of stocks thru private placement at a premium.

41% increase in Retained Earnings attributable to the profit generated during the 1st semester.

142% increase in Non-controlling Interest due to net income share of the minority shareholders during the period.

## KEY PERFORMANCE INDICATORS

The Group uses the following key performance indicators in order to assess the Group's financial performance from period to period. Analyses are employed by comparisons and measurements based on the financial data on the periods indicated below:

| | June 30, 2014 | December 31, 2013 |
|---|---|---|
| **Current/Liquidity Ratios** | | |
| Current Ratio | **1.24** | 0.95 |
| Debt to Equity Ratio | **1.20** | 1.51 |
| **Solvency Ratio** | | |
| Quick Ratio | **0.73** | 0.49 |

| | For the Six Months Ended June 30 | |
|---|---|---|
| | **2014** | 2013 |
| Revenue growth rate | **-5.9%** | 27.3% |
| Gross profit margin | **12.0%** | 9.4% |
| Net Profit Margin | **2.3%** | 0.5% |
| Return on Equity | **1.6%** | 1.3% |
| Return on Asset | **0.6%** | 0.6% |

The following defines each ratio:

The current ratio is the ratio of the Company's current resources versus its current obligations. This is computed by dividing the current assets by the current liabilities. The result is expressed in number of times.

The quick ratio is the ratio of the Company's cash plus trade and other receivables versus its current obligations. This is computed by dividing the sum of cash and trade and other receivables by the current liabilities. The result is expressed in number of times.

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

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

The gross profit margin is the ratio of the Company's gross profit versus its net sales for a given period. This is computed by dividing gross profit by net sales. The result is expressed in percentage.

The net profit margin is the ratio of the Company's net income after tax versus its net sales for a given period. This is computed by dividing net income after tax by net sales. The result is expressed in percentage.

The return on equity ratio is the ratio of the Company's net income to stockholders' equity. This measures the managements' ability to generate returns on investments. This is computed by dividing net income after tax by the average stockholders' equity. The result is expressed in percentage.

The return on asset ratio is the ratio of the Company's net income to total assets. This is computed by dividing net income after tax by the average total assets. The result is expressed in percentage.

## PART II--OTHER INFORMATION

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

## SIGNATURES

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

**ALLIANCE SELECT FOODS INTERNATIONAL, INC.**

**JONATHAN Y. DEE**
Director, President and Chief Executive Officer
Date : August 13, 2014

**GRACE S. DOGILLO**
Vice President - Finance
Date : August 13, 2014

**SUBSCRIBED AND SWORN** to before me this AUG 13 2014 at QUEZON CITY affiants exhibiting to me their government issued identification cards, as follows:

| NAMES | GOV'T.ISSUED ID NO. | DATE OF ISSUE | PLACE OF ISSUE | EXPIRATION |
|---|---|---|---|---|
| Jonathan Y. Dee | Passport-EB 6894223 | Dec. 06, 2012 | DFA, Manila | Dec. 05, 2017 |
| Grace S. Dogillo | Passport-EB8007108 | April 30, 2013 | DFA, Manila | April 29, 2018 |

Doc. No. 200
Page No. 50
Book No. 216
Series of 2014

ATTY. TOMAS F. DULAY JR.
NOTARY PUBLIC
Until December 31, 2014
ADM MATTER #. NP-061-2014-2015
PTR# 9042388 01-02 /01-07-14 Q.C.
IBP# 915073 C.Y 2014 Q.C.
Roll No. 16583/03/13-61
TIN# 410225916
Add. 92 Legaspi St. Proj. 4 Q.C.
MCLE EXEMPTED # 000836

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

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(In U.S. Dollar)

| | Notes | June 30, 2014 Unaudited | December 31, 2013 Audited |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | 7 | **$ 1,756,152** | $ 1,568,125 |
| Cash - Restricted | 7 | **11,587,653** | - |
| Trade and other receivables - net | 8 | **19,264,268** | 16,162,372 |
| Due from related parties | 19 | **881,340** | 810,484 |
| Inventories - net | 9 | **19,592,650** | 14,436,955 |
| Biological asset | 10 | **134,059** | 220,498 |
| Prepayments and other current assets | 11 | **1,967,759** | 1,364,387 |
| Total Current Assets | | **55,183,881** | 34,562,821 |
| **Non-current Assets** | | | |
| Investment in associates | 12 | **381,455** | 336,838 |
| Investment in joint ventures | 13 | **1,389,529** | 471,996 |
| Property, plant and equipment - net | 14 | **20,946,515** | 21,126,781 |
| Deferred tax assets | 33 | **1,126,997** | 1,408,920 |
| Goodwill on business combination | 3 | **9,502,585** | 9,502,585 |
| Intangible assets | 15 | **221,104** | 218,631 |
| Other non-current assets | 16 | **1,949,712** | 1,831,649 |
| Total Non-current Assets | | **35,517,897** | 34,897,400 |
| | | **$90,701,778** | $69,460,221 |
| **LIABILITIES AND EQUITY** | | | |
| **Current Liabilities** | | | |
| Trade and other payables | 17 | **$10,187,783** | $ 7,332,391 |
| Loans payable | 18 | **33,939,117** | 28,610,398 |
| Income tax payable | | **18,268** | 227,283 |
| Due to related parties | 19 | **287,649** | 143,763 |
| Total Current Liabilities | | **44,432,817** | 36,313,835 |
| **Non-current Liabilities** | | | |
| Loans payable - net of current portion | 18 | **4,084,240** | 4,565,481 |
| Retirement benefit obligation | 20 | **650,839** | 634,958 |
| Deferred tax liabilities | 33 | **258,604** | 258,604 |
| Total Non-current Liabilities | | **4,993,684** | 5,459,043 |
| | | **49,426,501** | 41,772,878 |
| **Equity** | | | |
| Share capital | 21 | **32,238,544** | 22,575,922 |
| Reserves | 23 | **7,020,073** | 4,065,145 |
| Retained earnings | | **1,906,584** | 1,330,601 |
| | | **41,165,201** | 27,971,668 |
| Treasury shares | 21 | **(5,774)** | (5,774) |
| Equity attributable to equity holders of the parent | | **41,159,427** | 27,965,894 |
| Non-controlling interest | 22 | **115,850** | (278,551) |
| Total Equity | | **41,275,277** | 27,687,343 |
| | | **$90,701,778** | $69,460,221 |

***See Notes to Consolidated Financial Statements.***

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

**UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(In U.S. Dollar)

| | | For the Second Quarter Ended June 30 | | For the Six Months Ended June 30 | |
|---|---|---|---|---|---|
| | Notes | 2014 | 2013 | 2014 | 2013 |
| **Revenue - net** | 25 | **$21,098,405** | $25,406,826 | **$42,553,895** | $45,245,490 |
| **Cost of Goods Manufactured and Sold** | 27 | **18,662,692** | 23,000,107 | **37,452,903** | 40,933,876 |
| **Gross Profit** | | **2,435,713** | 2,406,719 | **5,100,992** | 4,311,614 |
| | | **11.5%** | **9.5%** | **12.0%** | **9.5%** |
| **Other Income** | 26 | **182,338** | 1,005,063 | **1,030,775** | 1,009,240 |
| | | **2,618,051** | 3,411,782 | **6,131,767** | 5,320,854 |
| **Selling and Administrative Expenses** | 28 | **1,983,412** | 1,975,151 | **3,810,097** | 3,974,228 |
| **Other Expenses** | 29 | **45,119** | 41,300 | **102,616** | 77,694 |
| **Finance Costs** | 32 | **459,652** | 422,386 | **911,984** | 841,265 |
| | | **2,488,183** | 2,438,837 | **4,824,697** | 4,893,187 |
| **Share in Equity in Net Earnings of Associates** | 12 | **4,890** | 13,550 | **44,617** | 63,450 |
| **Share in Equity in Net Earnings (Loss) of Joint Ventures** | 13 | **94,604** | 5,671 | **69,831** | 19,311 |
| | | **99,494** | 19,221 | **114,448** | 82,761 |
| **Profit (Loss) Before Tax** | | **229,362** | 992,166 | **1,421,518** | 510,428 |
| **Income Tax Expense (Benefit)** | 33 | **124,168** | 129,781 | **437,446** | 267,135 |
| **Profit (Loss) for the period** | | **$105,194** | $862,385 | **$984,072** | $243,293 |
| **Attributable to:** | | | | | |
| Equity holders of the parent | | **(35,518)** | $984,025 | **575,983** | $420,991 |
| Non-controlling interest | 22 | **140,712** | (121,640) | **408,089** | (177,698) |
| | | **$105,194** | $862,385 | **$984,072** | $243,293 |
| **Earnings (Loss) Per Share** | | | | | |
| Basic and diluted earnigs (loss) per share | 34 | | $0.0009 | **$0.0007** | $0.0004 |
| **Profit (Loss) for the Year** | | **$105,194** | $862,385 | **$984,072** | $243,293 |
| **Other Comprehensive Income (Loss)** | | | | | |
| **Items that may be reclassified to profit or loss in subsequent periods:** | | | | | |
| Exchange differences on translating foreign operations | | **-** | - | **(54,174)** | - |
| | | **-** | - | **(54,174)** | - |
| **Total Comprehensive Income (Loss)** | | **105,194** | $862,385 | **929,898** | $243,293 |
| **Attributable to:** | | | | | |
| Equity holders of the parent | | **(35,518)** | $984,025 | **535,497** | $420,991 |
| Non-controlling interest | | **140,712** | (121,640) | **394,401** | (177,698) |
| | | **$105,194** | $862,385 | **$929,898** | $243,293 |

***See Notes to Consolidated Financial Statements.***

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

**UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

(In U.S. Dollar)

| | Notes | Share Capital | Share Premium | Revaluation Increment | Fair value on Investment Revaluation Reserve | Cumulative Translation Adjustment | Retained Earnings | Treasury Shares | Non-controlling Interest | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Balance, January 1, 2013, as restated | | 22,575,922 | 3,821,732 | 71,677 | 26,670 | 162,876 | 3,807,862 | (5,774) | 59,625 | 30,520,590 |
| Other comprehensive income | | | | | | | | | | |
| Exchange differences on translating foreign operations | 22,23 | - | - | - | - | 2,997 | - | - | (8,464) | (5,467) |
| Revaluation increment | | | | 563,374 | | | - | | - | 563,374 |
| Share in other comprehensive income of a joint venture | 13 | - | - | - | 82,761 | - | - | - | - | 82,761 |
| Loss for the period | 22 | - | - | - | - | - | 420,991 | - | (177,698) | 243,293 |
| Total comprehensive income (loss) | | - | - | 563,374 | 82,761 | 2,997 | 420,991 | - | (186,162) | 883,961 |
| **Balance, June 30, 2013** | | 22,575,922 | 3,821,732 | 635,051 | 109,431 | 165,873 | 4,228,853 | (5,774) | (126,537) | 31,404,551 |
| Other comprehensive income | | | | | | | | | | |
| Exchange differences on translating foreign operations | 22,23 | - | - | - | - | 5,863 | - | - | 8,472 | 14,335 |
| Revaluation increment | | | | (563,374) | | | | | | (563,374) |
| Remeasurement gain (loss) on retirement | | | | - | | | 104,558 | | (164) | 104,394 |
| Share in other comprehensive income of a joint venture | 13 | - | - | - | (109,431) | - | (906) | - | - | (110,337) |
| Loss for the period | 22 | - | - | - | - | - | (3,001,904) | - | (160,322) | (3,162,226) |
| Total comprehensive income (loss) | | - | - | (563,374) | (109,431) | 5,863 | (2,898,252) | - | (152,014) | (3,717,208) |
| **Balance, December 31, 2013** | | **$22,575,922** | **$3,821,732** | **$71,677** | **-** | **$171,736** | **$1,330,601** | **(5,774)** | **(278,551)** | **$27,687,343** |
| Issuance of capital stock | | 9,662,622 | 2,995,413 | | | | | | | 12,658,035 |
| Other comprehensive income | | | | | | | | | | |
| Exchange differences on translating foreign operations | 22,23 | - | - | - | - | (40,483) | - | - | (13,688) | (54,172) |
| Profit (Loss) for the period | 22 | - | - | - | - | - | 575,983 | - | 408,089 | 984,072 |
| **Balance, June 30, 2014** | | **$32,238,544** | **$6,817,145** | **$71,677** | **-** | **$131,253** | **$1,906,584** | **(5,774)** | **$115,850** | **$41,275,277** |

***See Notes to Consolidated Financial Statements.***

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

**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Amounts In U.S. Dollar)

| | | For the Six Months Ended June 30 | |
|---|---|---|---|
| | Notes | **2014** | 2013 |
| **Cash Flows from Operating Activities** | | | |
| Profit (Loss) before tax | | **$1,421,518** | $510,428 |
| Adjustments for: | | | |
| Finance costs | 32 | **911,984** | 982,181 |
| Depreciation and amortization | 14,15,27,28 | **689,764** | 740,491 |
| Provision for (Reversal of allowance for) doubtful accounts | 8, 28, 30 | | 123,966 |
| Gain on sale of property, plant and equipment | 14,26 | **(537,887)** | (529,591) |
| Retirement benefit | 20 | **-** | 61,273 |
| Foreign exchange gain (loss) - net | | **(449,378)** | (440,392) |
| Provision for inventory obsolescence | 9,29 | | 49,000 |
| Share in loss (profit) of associates and joint ventures | 12,13 | **(114,448)** | (82,761) |
| Interest income | 7, 26 | **(26,329)** | (8,654) |
| Exchange differences on translating foreign operations | | | 5,467 |
| Operating cash flows before working capital changes | | **1,895,224** | 1,411,408 |
| Decrease (Increase) in: | | | |
| Trade and other receivables | | **(3,101,896)** | (2,210,521) |
| Due from related parties | | **(70,856)** | (60,197) |
| Inventories | | **(5,069,255)** | (2,734,567) |
| Prepayments and other current assets | | **(603,372)** | (968,110) |
| Other-non current assets | | **(118,063)** | (130,788) |
| Increase in trade and other payables | | **2,855,392** | 5,275,532 |
| Cash used in operations | | **(4,212,826)** | 582,757 |
| Income tax paid | | **(227,283)** | (537,775) |
| Net cash used in operating activities | | **(4,440,109)** | 44,982 |
| **Cash Flows from Investing Activities** | | | |
| Additions to property, plant and equipment | 14 | **(881,100)** | (602,287) |
| Proceeds from sale of property, plant and equipment | | **906,601** | 529,591 |
| Investment in joint venture | 13 | **(847,701)** | - |
| Acquisition of investment in associate | | **-** | (39,279) |
| Interest income received | 7,26 | **26,329** | 8,654 |
| Net cash used in investing activities | | **(795,871)** | (103,321) |
| **Cash Flows from Financing Activities** | | | |
| Proceeds from bank loans | | **38,936,650** | 31,277,147 |
| Payment of bank loans | | **(34,089,169)** | (30,404,004) |
| Issuance of shares of stocks | | **1,265,793** | - |
| Finance Costs | | **(911,984)** | (841,226.00) |
| Advances from related parties | | **143,886** | (316,381) |
| Net cash from financing activities | | **5,345,175** | (284,464) |
| **Effects of Foreign Exchange Rate Changes** | | **78,832** | - |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | | **188,027** | (342,803) |
| **Cash and Cash Equivalents, Beginning** | | **1,568,125** | 4,191,826 |
| **Cash and Cash Equivalents, End** | 7 | **$ 1,756,152** | $ 3,849,023 |

*See Notes to Consolidated Financial Statements.*

## 1. CORPORATE INFORMATION

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

Furthermore, the Parent Company was registered with the Board of Investments (BOI) on August 24, 2004 under the Omnibus Investments Code of 1987, otherwise known as Executive Order No. 226, on a non-pioneer status as new export producer of canned tuna and its by-product, fishmeal. As such, the Parent Company is entitled to certain incentives such as income tax holiday (ITH) for four years plus three bonus years from the date of registration and subject for approval of extension by the BOI; tax credit on raw materials and supplies used for export products; and additional deduction for labor expense, subject to certain requirements under the terms of its BOI registration. The Parent Company has been granted by the BOI three years extension of ITH that ended on August 23, 2011.

On July 1, 2010, the Board of Directors has resolved to change the corporate name from Alliance Tuna International, Inc. to Alliance Select Foods International, Inc. The change in corporate name was then approved by the SEC on July 22, 2010.

On November 25, 2011, SEC has approved the increase in the Parent Company's authorized share capital from P950,000,000 divided into 950,000,000 shares to P1,500,000,000 divided into 1,500,000,000 shares having a par value of P1 per share.

The financial position and results of operations of the Parent Company and its subsidiaries (the "Group") are consolidated in these financial statements.

The Parent Company's principal place of business is located at Suites 1205, 1206 & 1405 East Tower, Philippine Stock Exchange Centre, Exchange Road, Ortigas Center, Pasig City. It has plant facilities located in Barrio Tambler, General Santos City, Philippines.

## 2. FINANCIAL REPORTING FRAMEWORK AND BASIS OF PREPARATION AND PRESENTATION

### Statement of Compliance

The consolidated financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS), which includes all applicable PFRS, Philippine Accounting Standards (PAS), and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), Philippine Interpretations Committee (PIC) and Standing Interpretations Committee (SIC) as approved by the Financial Reporting Standards Council (FRSC) and Board of Accountancy (BOA) and adopted by the SEC.

**Basis of Preparation and Presentation**

The consolidated financial statements of the Group have been prepared on the historical cost basis, except for:

- financial instruments measured at fair value;
- certain financial instruments carried at amortized cost;
- inventories carried at the lower of cost or net realizable value;
- biological assets measured at fair value less costs to sell;
- the retirement benefit obligation recognized as the net total of the present value of defined benefit obligation less the fair value plan assets.

**Functional and Presentation Currency**

These consolidated financial statements are presented in U.S. Dollar, the currency of the primary economic environment in which the Group operates. All amounts are recorded in the nearest dollar, except when otherwise indicated.

## 3. BASIS OF CONSOLIDATION AND COMPOSITION OF THE GROUP

**Basis of Consolidation**

The consolidated financial statements incorporate the financial statements of the Parent Company and all subsidiaries it controls. Control is achieved when the Parent Company has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power to affect its returns.

The Parent Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of these three elements of control. When the Parent Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally.

The Parent Company considers all relevant facts and circumstances in assessing whether or not the Parent Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Parent Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Parent Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Parent Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

## Composition of the Group

Details of the Parent Company's subsidiaries as at June 30 are as follows:

| | Date Acquired/ Incorporated | Ownership Interests | |
|---|---|---|---|
| | | **2014** | 2013 |
| ASFI Thailand | May 12, 2004 | **100%** | 100% |
| PT International Alliance Food Indonesia (PTIAFI) | May 28, 2008 | **99.98%** | 99.98% |
| Prime Foods New Zealand Limited (PFNZ) | January 6, 2009 | **50.00% + 1 share** | 50.00% + 1 share |
| Big Glory Bay Salmon and Seafood Company Inc. (BGB) | October 29, 2009 | **50.00% + 1 share** | 50.00% + 1 share |
| ASFI Choice Foods, Inc. (ASFIC) | April 11, 2011 | **100%** | 100% |
| Spence & Company Ltd. (Spence) | August 10, 2011 | **100%** | 100% |
| Akaroa Salmon (NZ) Ltd. (Akaroa) | October 1, 2012 | **80%** | 80% |
| Alliance Select Foods Pte. Ltd. (ASF) | January 24, 2013 | **100%** | 100% |

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

### ASFI Thailand

On March 12, 2004, the Parent Company established ASFI Thailand, a Thailand based wholly-owned subsidiary, the primary activity of which is that of a sales representative office. ASFI Thailand's net assets as at June 30, 2014 and December 31, 2013 amounted to nil.

### PTIAFI

PTIAFI was established under the Indonesian law within the framework of the Foreign Capital Investment Law No. 25 year 2007 based on Notarial Deed No. 101 dated May 21, 2001. The Deed of Establishment was approved by the Minister of Justice of the Republic of Indonesia in the Decision Letter No. AHU-24298.AH.01.01 dated May 28, 2008.

PTIAFI is primarily engaged in canned fish processing exclusively for international market. The plant is located at JI. Raya Madidir Kelurahan Madidir Unet Ling. II Kecamatan Madidir, Bitung, Indonesia.

This investment in PTIAFI provides the Group with access to the rich Indonesian marine resources.

On February 10, 2012, the Parent Company has purchased 500,000 shares of PT Wailan Pratama, a fishing company, at book value for $500,000 which has been approved by the Indonesia Investment Coordinating Board and the Department of Law and Human Rights in accordance to Indonesian Law. This event has increased Parent's stake in PTIAFI from 89.98% as at December 31, 2010 to 99.98% on February 10, 2012 and as at June 30, 2014.

The boost in stake by the Parent Company is being done at a time when the Group plans to aggressively increase its production and marketing efforts in Indonesia. Indonesia is extremely rich in marine resources and full control of PTIAFI will enable the Group to tap additional export markets around the globe.

On December 20, 2011, PTIAFI has founded and established PT Van de Zee (VDZ) under the current Indonesian law with 80% percentage ownership and is considered a subsidiary of PTIAFI. VDZ will be operating in integration with the tuna processing activities of PTIAFI. VDZ's establishment as a foreign investment company has been approved by the Indonesian Investment Coordinating Board or Bedan Koordinasi Penanaman Modal and Ministry of Laws and Human Rights of the Republic of Indonesia.

Indonesia's Ministry of Fisheries and Marine Resources has accepted fees from VDZ for an initial allocation of 5,000 metric tons for 2012. Conditional on the fulfillment of its five-year vessel acquisition program, VDZ has a potential allocation of 30,000 metric tons by 2016. This means by that year, VDZ would be able to support a 100% capacity utilization of PTIAFI's processing plant which has a capacity of 90 metric tons per day.

On May 26, 2010 the Board of Directors authorized the Parent Company to increase its equity investment in PTIAFI from $825,600 to $4,499,000 by converting its outstanding cash advances in the amount of $3,673,400 into equity and applying the same as payment for the additional 3,673,400 shares at a par value of $1.00. The percentage ownership thus increased from 79.92% as at December 31, 2009 to 89.98% as at December 31, 2010. The Parent Company's joint venture partner in the subsidiary, PT Wailan Pratama, also converted part of its advances and increase its shareholdings from 206,400 shares as at December 31, 2009 to 500,001 shares as at December 31, 2010 with a par value of $1.00.

**PFNZ**

PFNZ is a company domiciled in New Zealand and is registered under the Companies Act of 1993 on September 8, 1993. The Ministry of Economic Development assigned company number 625998 to PFNZ as part of its registration process.

PFNZ is primarily engaged in the business of processing, manufacturing and distributing smoked salmon and other seafoods under the Prime Smoke and Studholme brand for distribution in New Zealand and other countries. The investment in PFNZ is the first venture of the Parent Company in the salmon business. The plant is located in Hororata RD2 Darfield, New Zealand.

**BGB**

BGB is a joint venture between the Parent Company and its New Zealand-based subsidiary PFNZ. It was established primarily to engage in the business of manufacturing goods such as salmon and other processed seafoods. It was registered with the Philippine SEC on October 29, 2009 with registration number CS200916903. Its registered address is located at Suite 1205 East Tower, Philippine Stock Exchange Centre, Exchange Road, Ortigas Center, Pasig City, Philippines and its plant facilities is located at Barrio Tambler, General Santos City, Philippines.

The investment in salmon processing allows the Group to be the dominant player in the smoked salmon industry in the region and to continue on a path towards further product and resource diversification.

BGB started its commercial operation on August 1, 2011.

In 2013, the Parent Company and PFNZ converted their respective advances to BGB amounting to $257,000 each into equity ownership of 11,082,610 shares of BGB each with a par value of P1 per share.

**ASFIC**

On April 11, 2011, the Parent Company established ASFIC in Massachusetts, USA, to serve as the Parent Company's vehicle in making investments in, or acquisitions of other companies, as well as market and distribute the Group's products in the USA. ASFIC is a wholly-owned subsidiary of the Parent Company. ASFIC does not have any revenue nor expenses as the Parent Company used it solely to acquire investments. ASFIC's net assets as at December 31, 2013 and 2012 amounted to $10,000.

**SPENCE**

On August 10, 2011, the Parent Company acquired 100% of the issued share capital of Spence, located at No. 76 Campanelli Drive, Brockton MA 02301 USA, for a cash consideration of $9,240,946 resulting in recognition of goodwill amounting to $7,451,946. Spence specializes in the production of smoked salmon and other seafoods. Its processing facilities cover an area of 20,000 square meters with a rated capacity of 6 metric tons per day.

The investment in salmon processing allows the Group to diversify its product line to take advantage of the changing food consumption patterns around the globe, address the issue of sourcing raw materials and improve overall margins and profitability.

As at August 10, 2011, Spence's financial position was as follows:

| | |
|---|---|
| **ASSETS** | |
| **Current Assets** | |
| Cash | $1,085,072 |
| Accounts receivables – net | 541,017 |
| Inventories | 416,488 |
| Tax refund receivable | 41,000 |
| Prepaid expenses | 5,261 |
| Deferred tax assets | 64,089 |
| | 2,152,927 |
| Non-current Asset | |
| Property and equipment – net | 359,496 |
| | $2,512,423 |

| | |
|---|---|
| **LIABILITIES AND EQUITY** | |
| **Current Liabilities** | |
| Accounts payable and accrued expenses | $ 613,070 |
| Note payable | 7,762 |
| | 620,832 |
| **Non-current Liability** | |
| Deferred tax liability | 102,591 |
| | 723,423 |
| **Equity** | |
| Share capital | 100 |
| Retained earnings | 1,788,900 |
| | 1,789,000 |
| | $2,512,423 |

Goodwill arising from acquisition on August 10, 2011 amounted to $7,451,946, computed as follows:

| | |
|---|---|
| Investment | $9,240,946 |
| Net assets | (1,789,000) |
| Goodwill | $7,451,946 |

**AKAROA**

On October 1, 2012, the Parent Company acquired 80% of the issued shares of Akaroa with a fair value of $276,161 at a purchase price of $2,326,800, resulting in a goodwill amounting to $2,050,639, recognized in the consolidated financial statements. Akaroa is a company incorporated and domiciled in New Zealand and is registered under the Companies Act of 1993. Its principal office is located in 9 Pope Street Riccarton, Christchurch New Zealand. Akaroa is engaged in the business of sea cage salmon farming and operates two marine farms in Akaroa Harbor, South Island, New Zealand. It also processes fresh and smoked salmon.

Akaroa also holds 20% stake in Salmon Smolt NZ Ltd., a modern hatchery quarantining high quality and consistent supply of smolts (juvenile salmon) for its farm.

The Group financed this acquisition through a private placement of its authorized unissued shares. Management believes that the acquisition of Akaroa will enable the Group to stabilize its supplies of salmon and eventually strengthen its market share in the salmon industry.

As at October 1, 2012, Akaroa's financial position were as follows:

| | |
|---|---|
| **ASSETS** | |
| **Current Assets** | |
| Cash | $ 40,060 |
| Trade and other receivables | 207,948 |
| Other short term financial assets | 25,799 |
| Inventories and biological asset | 106,333 |
| Other current asset | 1,314 |
| | 381,454 |
| **Non-current Asset** | |
| Property, plant and equipment | 276,416 |
| Investment in associates | 28,254 |
| Intangible assets | 96,390 |
| Other non-current assets | 1,761 |
| | 402,821 |
| | $784,275 |
| **LIABILITIES AND EQUITY** | |
| **Current Liabilities** | |
| Trade and other payables | $233,680 |
| Loans payable – current | 163,909 |
| | 397,589 |
| **Non-current Liability** | |
| Loans payable - net of current | 41,485 |
| | 439,074 |
| **Equity** | |
| Share capital | 13,275 |
| Reserves | 207,935 |
| Retained earnings | 123,991 |
| | 345,201 |
| | $784,275 |

Goodwill arising from acquisition on October 1, 2012 amounted to $2,050,639, computed as follows:

| | |
|---|---|
| Investment | $2,326,800 |
| Net assets at 80% | 276,161 |
| **Goodwill** | $2,050,639 |

**ASF**

On January 24, 2013, the Parent Company established Alliance Select Foods Pte. Ltd. (ASF), a Singapore based wholly-owned subsidiary. The initial issued and paid up share capital of the subsidiary is SGD10 (Ten Singapore Dollars) with 10 ordinary shares worth SGD1 per share. ASF has not yet started its commercial operation. The Management intends to increase the paid up capital in the future as it becomes operational. The primary activity of the subsidiary will be that of general wholesaler and trader and an investment holding company. ASF's net assets as at June 30, 2014 and December 31, 2013 amounted to nil.

**AMHI**

AMHI was established primarily to engage as a property holding arm of the Group. It was registered with the Philippine SEC on June 18, 2010 with registration number CS201009131. Its registered address is located at Purok Salayda, Barangay Tambler, General Santos City, Philippines.

Initially, AMHI is a Special Purpose Entity (SPE) and considered as a subsidiary of the Parent Company. As an SPE, AMHI conducts its normal operations by exclusively allowing the members of the Group to make use of its properties under lease agreements.

On December 12, 2012, the Parent Company's officers who held key positions in AMHI resigned from AMHI. Moreover, on December 28, 2012, AMHI sold a substantial portion of its assets to the Parent Company to settle amounts due to the latter.

Effective December 28, 2012, the Parent Company ceased to exercise control over AMHI and had reduced financial interest, but continued to have significant influence over AMHI as disclosed in Note 6.

For consolidation purposes, only the result of operations from January 1, 2012 up to December 27, 2012 was included in the consolidated statements of comprehensive income.

The loss of control over AMHI resulted in reduction of the beginning balance of the Group's retained earnings amounting to $860,638.

## 4. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

### Adoption of New and Revised Accounting Standards Effective in 2013

The following new and revised accounting standards and interpretations that have been published by the International Accounting Standards Board (IASB) and issued by the FRSC in the Philippines were adopted by the Group effective on January 1, 2013, unless otherwise indicated:

Amendments to PAS 1, *Presentation of Financial Statements*

The amendments require companies preparing financial statements in accordance with PFRS to group items of other comprehensive income into items that may or may not be reclassified to profit or loss in subsequent periods. The amendments introduce new terminology, whose use is not mandatory, for the statement of comprehensive income and income statement. The amendments also reaffirm existing requirements that items in other comprehensive income (OCI) and profit or loss should be presented as either in a single statement or two consecutive

statements. The amendments are effective for annual periods beginning on or after July 1, 2012.

The adoption of these amendments resulted in the grouping of other comprehensive income items that will be and will not be reclassified to profit and loss in subsequent periods. The amendments have been applied retrospectively.

Amendments to PAS 19, *Employee Benefits (2011)*

The amendments change the accounting for defined benefit plans and termination benefits. These amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets as it occur, thus, resulting to the elimination of the "corridor approach" as previously permitted under the revised PAS 19. These also require acceleration in the recognition of past service costs and the immediate recognition of all actuarial gains and losses through other comprehensive income. In effect, the net pension asset or liability recognized in the statement of financial position shall be presented in its full value whether it is a plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of PAS 19 are replaced with a net interest amount under PAS 19, which is calculated by applying the discount rate to the net defined benefit liability or asset. In addition, PAS 19 introduce certain changes in the presentation of the defined benefit cost including more extensive disclosures.

The adoption of these amendments resulted in the presentation of the third statement of financial position and more extensive disclosure on the Group's defined benefit costs and obligations.

PAS 27, *Separate Financial Statements (as amended in 2011)*

The standard (as amended in 2011) outlines the accounting and disclosure requirements for separate financial statements, which are the financial statements prepared by a parent, or an investor in a joint venture or associate, where those investments are accounted for either at cost or in accordance with PAS 39, Financial Instruments: Recognition and Measurement or PFRS 9, Financial Instruments. The standard (as amended in 2011) also outlines the accounting treatment and additional disclosure requirements for dividends.

The adoption of these amendments did not have a significant impact on the Group's financial statements.

PAS 28*, Investments in Associates and Joint Ventures (as amended in 2011)*

The standard (as amended in 2011) outlines the application, with certain limited exceptions, of the equity method to investments in associates and joint ventures. The standard (as amended in 2011) also defines an associate by reference to the concept of "significant influence", which requires power to participate in financial and operating policy decisions of an investee (but not joint control or control of those polices). The standard (as amended in 2011) is effective for annual periods beginning on or after January 1, 2013 with early application permitted.

The adoption of these amendments did not have a significant impact on the Group's financial statements.

Amendments to PFRS 7*, Financial Instruments: Disclosures on Asset and Liability Offsetting*

The amendments include new disclosure requirements that pertain to all recognized financial instruments that are set off in accordance with paragraph 42 of PAS 32, *Financial Instruments: Presentation*.

The adoption of these amendments did not have a significant impact on the Group's consolidated financial statements.

PFRS 10, *Consolidated Financial Statements*

The standard establishes the principles for the presentation and preparation of consolidated financial statements when an entity controls one or more entities. This standard also includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure of rights to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in this standard to deal with complex scenarios.

The adoption of these amendments did not have a significant impact on the Group's consolidated financial statements.

PFRS 11*, Joint Arrangements*

The standard deals on how a joint arrangement be classified when two or more parties have joint control. Under this standard, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In addition, investments in joint ventures under this standard are required to be accounted for using the equity method of accounting.

The application of this standard is relevant in the initial recognition of the Group's investment in Wild Catch Fisheries, Inc. as a Joint Venture.

PFRS 12*, Disclosures of Interest in Other Entities*

The standard requires companies to disclose information about its interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. The disclosure requirements in this standard are more extensive than those in the current standards.

The application of this standard did not have a significant impact on the Group's consolidated financial statements.

PFRS 13*, Fair Value Measurement*

The standard establishes a single source of guidance and disclosure requirements for fair value measurements. The scope of PFRS 13 applies to both financial instrument and non-financial instrument items for which other PFRSs require or permit fair value measurements and disclosures, except in specified circumstances. The disclosure requirements in PFRS 13 are more extensive than those required in the current standards.

PFRS 13 requires the prospective application for January 1, 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the standard in comparative information provided for periods before the initial application of the standard. In accordance with these transitional provisions, the Group has not made any new disclosure required by PFRS 13 for the 2012 comparative period. Other than the additional disclosures, the application of PFRS 13 has not had any material impact on the amounts recognized in the financial statements.

Amendments to PFRS 10, PFRS 11 and PFRS 12 *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance*

The amendments clarify certain transitional guidance on the application of PFRS 10, PFRS 11 and PFRS 12. These amendments are effective for annual period beginning on or after January 1, 2014. The major clarifications are as follows:

- The amendments define the date of initial application of PFRS 10 as the beginning of the annual reporting period in which this standard is applied for the first time.
- The amendments clarify how a reporting entity should adjust comparative period(s) retrospectively if the consolidation conclusion reached at the date of initial application under PFRS 10 is different from that under PAS 27/SIC-12.

- When the control over an investee was lost during the comparative period (e.g., as a result of a disposal), the amendments state that there is no need to adjust the comparative figures retrospectively even though a different consolidation conclusion might have been reached under PAS 27/SIC-12 and PFRS 10.
- When a reporting entity concludes, on the basis of the requirements of PFRS 10, that it should consolidate an investee that was not previously consolidated, the entity should apply acquisition accounting in accordance with PFRS 3, Business Combinations, to measure assets, liabilities and non-controlling interests of the investee at the date when the entity obtained control of the investee. The amendments clarify which version of PFRS 3 should be used in different scenarios.
- The amendments provide additional relief by limiting the requirement to present adjusted comparative information to the period immediately before the date of initial application. These amendments also eliminate the requirements to present comparative information for disclosures related to unconsolidated structured entities for any period before the first annual period in which PFRS 12 is applied.

The adoption of these amendments did not have a significant impact on the Group's consolidated financial statements.

*Annual Improvements to PFRSs 2009-2011 Cycle*

The annual improvements, which were applied retrospectively, addressed the following issues:

Amendment to PAS 1*, Presentation of Financial Statements*

The amendment clarifies that:

- the minimum required comparative period is the preceding period;
- when an entity prepares financial statements and voluntarily includes more than the minimum comparative information, it shall include comparative information in related notes; and
- when an entity is required to present a third statement of financial position, it shall not be required to include the comparative information in related notes.

In the current year, the Group has applied the amendments to PAS 19, *Employee Benefits*, which require a retrospective application and presentation of the third financial statement. In accordance with PAS 1, the Group has presented a third statement of financial position without the related notes except for the disclosure requirements of PAS 8, *Accounting Polocies, Changes in Accounting Estimates and Errors*, as shown in Note 42.

Amendments to PAS 16*, Property, Plant and Equipment*

The amendments clarify that spare parts, stand-by or servicing equipment are required to be classified as property, plant and equipment when they meet the definition of property, plant and equipment, and shall only be classified as inventory when they do not meet the definition of property, plant and equipment.

The adoption of these amendments did not have a significant impact on the Group's consolidated financial statements.

Amendments to PAS 32*, Financial Instruments: Presentation*

The amendments clarify that income tax relating to distributions to holders of equity transactions are required to be accounted for in accordance with PAS 12, *Income Taxes*. This may result in items of income tax being recognized in equity or in profit or loss.

The adoption of these amendments did not have a significant impact on the Group's

consolidated financial statements.

Amendments to PAS 34*, Interim Financial Reporting*

The amendments clarify 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 in the total assets and liabilities for the segment from the amount disclosed in the last annual financial statements.

The adoption of these amendments did not have a significant impact on the Group's consolidated financial statements.

**New Accounting Standards Effective after the Reporting Period Ended December 31, 2013.**

The Group will adopt the following PFRS when these become effective:

Amendments to PFRS 10, PFRS 12 and PAS 27 *Consolidated Financial Statements, Disclosure of Interests in Other Entities: Transition Guidance and Investment Entities and Separate Financial Statements*

The amendments to PFRS 10 introduce an exception from the requirement to consolidate subsidiaries for an investment entity. In terms of the exception, an investment entity is required to measure its interests in subsidiaries at fair value through profit or loss. The exception does not apply to subsidiaries of investment entities that provide services that relate to the investment entity's investment activities. These amendments are effective for annual periods beginning on or after January 1, 2014.

To qualify as an investment entity, certain criteria have to be met. Specifically, an entity is an investment entity when it:

- Obtains funds from one or more investors for the purpose of providing them with professional investment management services.
- Commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both.
- Measures and evaluates performance of substantially all of its investments on a fair value basis.

Consequential amendments to PFRS 12 and PAS 27 have been made to introduce new disclosure requirements for investment entities. In general, the amendments require retrospective application, with specific transitional provisions.

The adoption of these amendments will have no significant impact on the Group's financial statements.

Amendments to PAS 32, *Financial Instruments: Presentation*

The amendments provide clarifications on the application of the offsetting rules of financial assets and financial liabilities. These amendments are effective for annual periods beginning on or after January 1, 2014.

The adoption of these amendments will have no significant impact on the Group's financial statements.

*Annual Improvements to PFRSs 2010-2012 Cycle*

The annual improvements address the following issues:

Amendment to PFRS 2, *Share-based Payment*

The amendment provides new definitions of 'vesting condition' and 'market condition' and adds definitions for performance condition and service condition (which were previously part of the

definition of vesting condition).

The adoption of this amendment will have no significant impact on the Group's financial statements.

Amendment to PFRS 3, *Business Combinations (with consequential amendments to other standards)*

This amendment clarifies that contingent consideration that is classified as an asset or a liability shall be measured at fair value at each reporting date.

The adoption of this amendment will have no significant impact on the Group's financial statements.

Amendments to PFRS 8, *Operating Segments*

The amendments require an entity to disclose the judgments made by management in applying the aggregation criteria to operating segments. These also clarify that an entity shall only provide reconciliations of the total of the reportable segments' assets to the entity's assets if the segment assets are reported regularly.

The adoption of these amendments will have no significant impact on the Group's financial statements.

Amendment to PFRS 13, *Fair Value Measurement (amendments to the basis of conclusions only, with consequential amendments to the bases of conclusions of other standards) Operating Segments*

This amendment states that issuing PFRS 13 and amending PFRS 9 and PAS 39 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting if the effect of not discounting is immaterial.

The adoption of this amendment will have no significant impact on the Group's financial statements.

Amendment to PAS 16, *Property, Plant and Equipment*

The amendment requires that when an item of property, plant and equipment is revalued the gross carrying amount be adjusted in a manner that is consistent with the revaluation of the carrying amount.

The adoption of this amendment will have no significant impact on the Group's financial statements.

Amendment to PAS 24, *Related Party Disclosures*

The amendment states that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity.

The adoption of this amendment will have no significant impact on the Group's financial statements.

Amendment to PAS 38, *Intangible Assets*

The amendment requires that when an intangible asset is revalued the gross carrying amount be adjusted in a manner that is consistent with the revaluation of the carrying amount.

The adoption of this amendment will have no significant impact on the Group's financial statements.

The above improvements are effective for annual periods beginning on or after July 1, 2014 and shall be applied retrospectively. However, early application of these improvements is permitted.

*Annual Improvements to PFRSs 2012-2013 Cycle*

These annual improvements address the following issues:

Amendment to PFRS 1, *First-time Adoption of International Financial Reporting Standards (changes to the Basis for Conclusions only)*

The amendment states that an entity, in its first PFRS financial statements, has the choice between applying an existing and currently effective PFRS or applying early a new or revised PFRS that is not yet mandatorily effective, provided that the new or revised PFRS permits early application. An entity is required to apply the same version of the PFRS throughout the periods covered by those first PFRS financial statements.

The adoption of this amendment will have no significant impact on the Group's financial statements.

Amendment to PFRS 3, *Business Combinations*

The amendment clarifies that PFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.

The adoption of this amendment will have no significant impact on the Group's financial statements.

Amendment to PFRS 13, *Fair Value Measurement*

The amendment stresses that the scope of the portfolio exception defined in paragraph 52 of PFRS 13 includes all contracts accounted for within the scope of PAS 39 or PFRS 9, regardless of whether they meet the definition of financial assets or financial liabilities as defined in PAS 32

The adoption of this amendment will have no significant impact on the Group's financial statements.

Amendment to PAS 40, *Investment Property*

The amendment clarifies that in determining whether a specific transaction meets the definition of both a business combination as defined in PFRS 3 Business Combinations and investment property as defined in PAS 40 Investment Property requires the separate application of both standards independently of each other.

The adoption of these amendments will have no significant impact on the Group's financial statements.

The above improvements are effective for annual periods beginning on or after July 1, 2014 and shall be applied retrospectively. However, early application of these improvements is permitted.

PFRS 9, *Financial Instruments*

The standard requires all recognized financial assets that are within the scope of PAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortized cost or at fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely for payments of principal and interest on the outstanding balance are generally measured at amortized cost at the end of subsequent reporting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods.

For financial liabilities that are designated as at fair value through profit or loss (FVPTL), the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or increase an accounting mismatch in profit or loss. Changes in fair value attributable to a financial

liability's credit risk are not subsequently reclassified to profit or loss. The standard is to be effective no earlier than the annual periods beginning January 1, 2017, with earlier application permitted.

Management believes that the adoption of this standard will not have a significant impact on the Group's consolidated financial statements, as such, no study has been conducted on the latest available financial statements.

IFRIC Interpretation 21, Levies

This Interpretation provides guidance on how to account a liability to pay a levy that is within the scope of PAS 37 Provisions, Contingent Liabilities and Contingent Assets. The Interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The interpretation provides the following guidance on recognition of a liability to pay levies:

- The liability is recognized progressively if the obligating event occurs over a period of time
- If an obligation is triggered on reaching a minimum threshold, the liability is recognized when that minimum threshold is reached.

This interpretation is effective for annual periods beginning on or after January 1, 2014 and to be applied retrospectively.

The adoption of this interpretation will have no significant impact on the Group's financial statements.

## 5. SIGNIFICANT ACCOUNTING POLICIES

### Business Combination

Acquisitions of businesses are accounted for using the equity method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interest issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with PAS 12 *Income Taxes* and PAS 19 *Employee Benefits* respectively;
- liabilities and equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangement of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with PFRS 2 *Share-based Payment* at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with PFRS 5 *Non-current assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the

sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquire (if any), the excess is recognized immediately in profit or loss as bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interest are measured at fair value or, when applicable, on the basis specified in another PFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period (which cannot exceed one year from acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for the changes in fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with PAS 39, *Financial Instruments: Recognition and Measurement*, or PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

Consolidation of a subsidiary begins when the Parent Company obtains control over the subsidiary and ceases when the Parent Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Parent Company gains control until the date when the Parent Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income of subsidiaries are attributed to the owners of the Parent Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Parent Company and to the non-controlling interest even if this results in the non-controlling interest having deficit.

The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company, using uniform accounting policies for like transactions and other events in similar circumstances. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. Unrealized gains and losses are eliminated.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Parent Company.

When the Group loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non- controlling interests. All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable PFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under PAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

**Goodwill**

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of business combination over the interest in the net fair value of the acquirer's identifiable assets, liabilities and contingent liabilities. Subsequently, goodwill arising on an acquisition of a business is measured at cost less any accumulated impairment losses.

For purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (CGUs) that is expected to benefit from the synergies of the combination.

A CGU to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss in the consolidated statements of comprehensive income. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

**Intragroup Transactions and Balances**

The consolidated financial statements were prepared using uniform accounting policies for like transactions and other events in similar circumstances. Intergroup balances and transactions, including inter group profits and unrealized profits and losses, are eliminated. When necessary, adjustments are made to the consolidated financial statements of subsidiaries to bring the accounting policies used in line with those used by the Parent Company. All intra-group transactions, balances, income and expenses are eliminated in the consolidation.

**Financial Assets**

*Initial recognition of financial assets*

Financial assets are recognized in the Group's financial statements when the Group becomes a party to the contractual provisions of the instrument. Financial assets are recognized initially at fair value. Transaction costs are included in the initial measurement of the Group's financial assets, except for investments classified at FVTPL.

*Classification of financial assets*

Financial assets are classified into the following specified categories: financial assets FVTPL, held-to-maturity investments, available-for-sale financial assets and loans and receivables. The

classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Currently, the Group's financial assets consist of loan and receivables.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment and are included in current assets, except for maturities greater than 12 months after the end of the reporting period.

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument or, when appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. The Group's financial assets classified under this category include cash and cash equivalents, trade and other receivables, due from related parties, and refundable lease deposit under other non-current assets.

*Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

*Objective evidence of impairment*

For all financial assets carried at amortized cost, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it has become probable that the borrower will enter bankruptcy or financial re- organization; or
- default or delinquency in interest or principal payments; or
- the disappearance of an active market for that financial asset because of financial difficulties; or
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period as well as observable changes in national or local economic conditions that correlate with default on receivables.

*Financial assets carried at amortized cost*

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the 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 financial assets carried at amortized cost is reduced directly by the impairment loss with the exception of trade receivables, wherein the carrying amount is reduced through the use of an allowance account. When trade receivables are considered uncollectible, these are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in consolidated profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss shall be reversed. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal shall be recognized in consolidated profit or loss.

*Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount is reported in the statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

*Derecognition of financial assets*

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire; or when the Group transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. The difference between the carrying amount of the financial asset derecognized and the consideration received or receivable is recognized in consolidated profit or loss.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

**Inventories**

Inventories are measured initially at cost. Costs comprise direct materials, direct labor costs and those overheads incurred in bringing the inventories to their present location and condition. Subsequently, inventories are stated at the lower of cost and net realizable value. Cost is calculated using the weighted average method. Net realizable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distributing the goods.

When the net realizable value of the inventories is lower than the cost, the Group provides for an allowance for the decline in the value of the inventory and recognizes the write-down as an expense in the consolidated statements of comprehensive income. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized.

**Prepayments**

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

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

**Investments in Associates**

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

Investment in an associate is measured initially at cost. Subsequent to initial recognition, investment in an associate is carried in the Group's consolidated financial statements at cost less any accumulated impairment losses.

The results of operation and assets and liabilities of an associate are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held-for-sale. Investment in an associate is carried in the consolidated statements of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable net assets of the associate at the date of acquisition is recognized as goodwill. Goodwill is included within the carrying amount of the investments and is assessed for impairment as part of that investment. Any deficiency of the cost of acquisition below the Group's share of the fair values of the identifiable net assets of the associate at the date of acquisition, i.e. discount on acquisition is immediately recognized in consolidated profit or loss in the period of acquisition.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

The Group's accounting policy for impairment of financial assets is applied to determine whether it is necessary to recognize any impairment loss with respect to its investment in an associate. When necessary, the entire carrying amount of the investment, including goodwill, is tested for impairment in accordance with the Group's accounting policy on impairment of tangible and intangible assets as a single asset by comparing its recoverable amount, higher of value in use and fair value less costs to sell, with its carrying amount, any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The investment in an associate is derecognized upon disposal or when no future economic benefits are expected to arise from the investment. Gain or loss arising on the disposal is determined as the difference between the sales proceeds and the carrying amount of the investment in an associate and is recognized in profit or loss.

Upon disposal of an associate that results in the Group losing significant influence over that

associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with PAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

**Investments in Joint Ventures**

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control (i.e. when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control).

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The Group reports its interests in jointly controlled entities using the equity method of accounting, except when the investment is classified as held-for-sale.

Investments in joint ventures are measured initially at cost. Subsequent to initial recognition, investments in joint ventures are carried in the Group's consolidated financial statements at cost less any accumulated impairment losses.

The Group's accounting policy for impairment of financial assets is applied to determine whether it is necessary to recognize any impairment loss with respect to its investments in joint ventures. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with the Group's accounting policy on impairment of tangible and intangible assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

Under the equity method, investments in a joint venture is carried in the consolidated statements of financial position at cost as adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the joint venture. When the Group's share of losses of a joint venture exceeds the Group's interest in that joint venture, which includes any long-term interests that, in substance, form part of the Group's net investment in a joint venture, the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture. From the date the Group disposes of its interest or when such external restrictions are placed on a jointly controlled entity that the Group no longer has joint control, the Group shall discontinue the use of equity method.

When the Group transacts with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognized in the Group's consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

The investment in a joint venture is derecognized upon disposal or when no future economic benefits are expected to arise from the investment. Gain or loss arising on the disposal is

determined as the difference between the sales proceeds and the carrying amount of the investment in a joint venture and is recognized in consolidated profit or loss.

**Biological Assets**

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

The Group measures its biological assets on initial recognition, and at the end of each reporting period, at fair value less estimated costs to sell. Estimated costs to sell include commissions to brokers and dealers, levies by regulatory agencies and commodity exchanges, and transfer taxes and duties.

The Group, through Akaroa, was permitted by New Zealand Inland Revenue Department (IRD) to use the national average market values issued by IRD as a proxy for fair value of a class of livestock, provided that such values are applied consistent to a class of livestock. The cost of biological assets per IRD approval stated that the cost is same as its acquisition cost. IRD's approval gives Akaroa the permission to use national average market values as proxy to fair values or cost in accordance with PAS 41, *Agriculture* (par. 30).

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

The Group's classifies its biological assets as consumable biological assets. Consumable biological assets are those that are to be harvested as agricultural produce or sold as biological assets.

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

**Property, Plant and Equipment**

Property, plant and equipment are initially measured at cost. The cost of an item of property, plant and equipment comprises:

- its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

At the end of each reporting period, items of property, plant and equipment are measured at cost less any subsequent accumulated depreciation, amortization and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets.

Subsequent expenditures relating to an item of property, plant and equipment that have already been recognized are added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditures are recognized as expenses in the period in which those are incurred.

Major spare parts and stand-by equipment qualify as property and equipment when the Group expects to use them for more than one year. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant, and equipment.

Estimated future dismantlement costs of items of property and equipment arising from legal or constructive obligations are recognized as part of property, plant and equipment and are measured at present value at the time the obligation was incurred.

Land held for use in the production or supply of goods or services, or for administrative purposes, is stated in the consolidated statements of financial position at their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by professional appraisers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from that which would be determined using fair values at the end of each reporting period.

The latest revaluation of the above land was made on February 1, 2011 by John J Ryan & Associates Ltd., a registered appraiser in New Zealand.

Any revaluation increase arising on the revaluation of such land is charged to other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognized as an expense, in which case the increase is charged to consolidated profit or loss to the extent of the decrease previously charged. A decrease in carrying amount arising from the revaluation of such land is charged as an expense to the extent that it exceeds the balance, if any, held in the properties revaluation surplus relating to a previous revaluation of that asset.

Depreciation is computed on the straight-line method based on the estimated useful lives of the assets as follows:

| | |
|---|---|
| Fishing vessels | 40 years |
| Buildings | 25 years |
| Machinery and equipment | 15 years |
| Plant and office furniture, fixtures and equipment | 5 years |
| Transportation equipment | 5 years |

Building and leasehold improvements are depreciated over the improvements' useful life of seven years or when shorter, the terms of the relevant lease.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognized impairment loss. Cost includes professional fees and for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences at the time the assets are ready for their intended use.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the consolidated profit or loss.

**Investment Properties**

Investment properties are properties that are held to earn rentals or for capital appreciation or both but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is

measured at cost less accumulated depreciation and accumulated impairment loss.

Gains or losses arising from changes in the fair value of investment property are included in the consolidated profit or loss on the period in which they arise.

Depreciation of building is computed on the straight-line method based on the estimated useful life of 25 years.

Transfers to, or from, investment property shall be made only when there is a change in use.

Investment property is derecognized by the Group upon its disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the property, calculated as the difference between the net disposal proceeds and the carrying amount of the asset, is included in the consolidated profit or loss in the period in which the property is derecognized.

**Intangible Assets**

*Acquired intangible assets*

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

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

*Amortization of intangible assets with definite useful lives*

Amortization for salmon farming consent with finite useful life is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

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

*Intangible assets with indefinite useful lives*

Intangible assets with indefinite life are not amortized. However, these assets are reviewed annually to ensure the carrying value does not exceed the recoverable amount regardless of whether an indicator of impairment is present. The Group considers its fishing license and mycrocystic consent having an indefinite useful life for the following reasons:

- there have been no established legal or contractual expiration date;
- impracticability of the determination of the intangible assets' economic useful lives; and
- unforeseeable limit to the period over which the fishing license and mycrocystic consent are expected to generate net cash flows for the Group.

*Derecognition of intangible assets*

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

**Impairment of Tangible and Intangible Assets**

At the end of each reporting period, the Group assesses whether there is any indication that any of its tangible and intangible assets may have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized as an expense. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit or group of units on a pro-rata basis.

Impairment losses recognized in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. A reversal of an impairment loss is recognized as income.

Goodwill that forms part of the carrying amount of an investment in an associate is not recognized separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

**Non-current Assets Held-for-Sale**

Non-current assets and disposal groups are classified as held-for-sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Immediately before classification as held-for-sale, the assets are remeasured in accordance with the Group's accounting policies. Thereafter, generally the assets or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to remaining assets and liabilities on a *pro-rata* basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment properties and biological assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held-for-sale and subsequent gains or losses on remeasurement are recognized in the consolidated profit or loss. Gains are not recognized in excess of any cumulative impairment loss.

If the non-current assets no longer met the criteria to be classified as held-for-sale, the Group shall cease to classify the asset held-for-sale. The Group shall measure a non-current asset that ceases to be classified as held-for-sale at the lower of:

- its carrying amount before the asset was classified as held-for-sale, adjusted for any depreciation, amortization or revaluations that would have been recognized had the asset not been classified as held-for-sale, and
- its recoverable amount at the date of the subsequent decision not to sell.

In general, the Group classifies assets as held-for-sale when the following conditions are met:

- Group Management is committed to a plan to sell;
- the asset is available for immediate sale;
- an active programme to locate a buyer is initiated;
- the sale is highly probable, within 12 months of classification as held-for-sale subject to limited exceptions;
- the asset is being actively marketed for sale at a sales price reasonable in relation to its fair value; and
- actions required to complete the plan indicate that it is unlikely that plan will be significantly changed or withdrawn.

These assets are presented as assets held-for-sale in the statements of financial position.

**Financial Liabilities and Equity Instruments**

*Classification as debt or equity*

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements.

*Financial liabilities*

Financial liabilities are recognized in the Group's consolidated financial statements when the Group becomes a party to the contractual provisions of the instrument. Financial liabilities are initially recognized at fair value. Transaction costs are included in the initial measurement of the Group's financial liabilities, except for debt instruments classified at FVTPL.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

Since the Group does not have financial liabilities classified at FVTPL, all financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or, when appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial liabilities are derecognized by the Group when the obligation under the liability is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in consolidated profit or loss.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

*Ordinary shares*

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax. The costs of acquiring Group's own shares are shown as a deduction from equity attributable to the Group's equity holders until the shares are cancelled or reissued. When such shares are subsequently sold or reissued, any consideration received, net of directly attributable incremental transaction costs and the related income tax effects, are included in equity attributable to the Group's equity holders.

*Stock dividend distributable*

Share dividend payable is recognized at the date of declaration. Its measurement is dependent on the percentage of share dividends issue as compared to the total shares outstanding at date of declaration. If the percentage of declared share dividends is less than 20%, the Parent Company measures it at par value or fair market value at the date of declaration; whichever is higher and any excess of fair value over its par is considered to be share premium. If the percentage of the declared share dividends is 20% or more, the Parent Company measures it on par value.

*Repurchase, disposal and reissue of shares capital (treasury shares)*

When share capital recognized as equity is repurchased, the amount of the consideration paid, which include directly attributable cost, net of any tax effects, is recognized as a reduction from equity. Repurchased shares are classified as treasury shares and are presented in the reserve for own share account. When treasury shares are sold or reissued subsequently, the amount received is recognized as increase in equity, and the resulting surplus or deficit on the transaction is presented in non-distributable capital reserve.

*Retained earnings*

Retained earnings represent the accumulated income of the Group attributable to the Parent Company after deducting dividends declared by the latter.

*Non-controlling interest*

Non-controlling interest represents the accumulated income after dividends declared attributable to the non-controlling shareholders of the subsidiaries.

**Provisions**

Provisions are recognized when the Group has a present obligation, either legal or constructive, as a result of a past event, it is probable that the Group will be required to settle the obligation through an outflow of resources embodying economic benefits, and the amount of the obligation can be estimated reliably.

The amount of the provision recognized is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. A provision is measured using the cash flows estimated to settle the present obligation; its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

If it is no longer probable that a transfer of economic benefits will be required to settle the obligation, the provision should be reversed.

## Employee Benefits

*Short-term benefits*

The Group recognizes a liability net of amounts already paid and an expense for services rendered by employees during the accounting period. A liability is also recognized for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

*Post-employment benefits*

The Group classifies its retirement benefit as defined benefit plans. Under the defined benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorized as follows:

- Service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements).
- Net interest expense or income.
- Remeasurement

The Group presents the first two components of defined benefit costs in profit or loss in the line item Retirement benefit. Curtailment gains and losses are accounted for as past service costs.

The retirement benefit obligation recognized in the statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

## 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 measured reliably. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business.

*Sale of goods*

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

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;

- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

*Sales return*

Sales return is recognized at the time of actual return of goods. It is measured by the amount of the revenue previously recognized in which the return is associated. It is treated as a contra revenue account and represents a direct deduction from amounts receivable for goods provided in the normal course of business.

The Group does not offer to its customers a general right of return. However, the Group accepts returns of damaged and defective products that are shipped directly from the Group or for products that are already expired.

*Sales allowance*

Sales allowance is recognized if it is probable that discounts will be granted and the amount can be measured reliably. It is measured as a portion of the revenue previously recognized in which the allowance is associated. It is treated as a contra revenue account and represents a direct deduction from amounts receivable for goods provided in the normal course of business.

*Interest income*

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time proportion basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

*Dividend income*

Dividend income from investments is recognized when the Group's rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

*Other income*

Other income is recognized when it is probable that the economic benefits will flow to the Group and it can be measured reliably. Other income includes all income generated outside the normal course of business.

**Expense Recognition**

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

Expenses in the statement of comprehensive income are presented using the function of expense method. Costs of sales are expenses incurred that are associated with the goods sold and includes Materials used, Direct labor and Manufacturing overhead. Operating expenses are costs attributable to administrative, marketing, selling and other business activities of the Group.

**Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

*Operating lease*

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

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

**Foreign Currency Transactions and Translations**

Transactions in currencies other than the functional currency of the Group are recorded at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at the end of the reporting period. Gains and losses arising on retranslation are included in the consolidated profit or loss for the year.

**Borrowing Costs**

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

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

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

**Related Party Transactions**

A related party transaction is a transfer of resources, services or obligations between the Parent Company and a related party, regardless of whether a price is charged.

Parties are considered related if one party has control, joint control, or significant influence over the other party in making financial and operating decisions. An entity that is a post-employment benefit plan for the employees of the Group and the key management personnel of the Group are also considered to be related parties.

**Taxation**

Income tax expense represents the sum of the current tax expense and deferred tax.

*Current tax expense*

The current tax expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in the consolidated statements of comprehensive income because it excludes

items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

The Parent Company's registered product was granted an ITH starting August 24, 2004 up to August 23, 2011 as disclosed in Note 1. After the ITH, the liability for current tax is calculated using a tax rate of 30% under the normal taxation or 2% of defined gross income under minimum corporate income tax (MCIT), whichever is higher.

The income tax rates of subsidiaries are as follows:

| | |
|---|---|
| ASFIC | 40% |
| Spence | 40% |
| Akaroa | 28% |
| PFNZ | 28% |
| PTIAFI | 25% |

*Deferred tax assets*

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences, while deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in associate except when the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

*Current and deferred tax for the year*

Current and deferred taxes are recognized as an expense or income in consolidated profit or loss, except when they relate to items that are recognized outside consolidated profit or loss, whether in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognized outside consolidated profit or loss.

**Earnings per Share**

The Group computes its basic earnings per share by dividing consolidated profit or loss attributable to ordinary equity holders of the Group by the weighted average number of ordinary shares issued and outstanding during the period.

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

**Events after the Reporting Period**

The Group identifies events after the end of each reporting period as those events, both favorable and unfavorable, that occur between the end of the reporting period and the date when

the consolidated financial statements are authorized for issue. The consolidated financial statements of the Group are adjusted to reflect those events that provide evidence of conditions that existed at the end of the reporting period. Non-adjusting events after the end of the reporting period are disclosed in the notes to the consolidated financial statements when material.

**Segment Reporting**

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

The Group reports separately, information about an operating segment that meets any of the following quantitative thresholds:

- its reported revenue, including both sales to external customers and inter-segment sales or transfers, is 10% or more of the combined revenue, internal and external, of all operating segments, provided that;
- the absolute amount of its reported profit or loss is 10% or more of the greater, in absolute amount, of the combined reported profit of all operating segments that did not report a loss and the combined reported loss of all operating segments that reported a loss; and
- its assets are 10% or more of the combined assets of all operating segments.

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

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

## 6. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, Management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on the historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

**Critical Judgments in Applying Accounting Policies**

The following are the critical judgments, apart from those involving estimations, that management have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognized in consolidated financial statements.

*Segment reporting*

The Group's revenue is classified into sales of canned and processed seafoods and sales of fishmeal. Although the revenue can be identified separately, the Group uses the same assets and resources for its sales of canned and processed seafoods and sales from fishmeal activities. Segregation and/or identification/allocation of those resources for each activity are impracticable since sales from fishmeal activities are minimal and do not exceed the 10% threshold criteria set forth in PFRS 8.

For management purposes, the Group is currently organized activities based on its products (i.e. sale of canned and processed seafoods; and sale of fishmeal) and considers each product as one segment. The core activity is the canned and processed seafoods which account for more than 94.8% of the Group's consolidated revenues, consolidated profit for the year, and consolidated total assets. Thus, Management believes that the Group's only reportable segment is the Group's activities taken as a whole.

*Leases*

The evaluation of whether an arrangement contains a lease is based on its substance. An arrangement is, or contains, a lease when the fulfillment of the arrangement depends on a specific asset or assets and the arrangement conveys the right to use the asset.

*Classification of lease as operating lease*

Based on Management evaluation, the lease arrangements entered into by Group as a lessor and as a lessee are accounted for as operating leases because the Group has determined that the lessor will not transfer the ownership of the leased assets to the Group upon termination of the lease.

The lease contracts entered into by the Group are classified as operating leases as discussed in Note 32.

*Functional currency*

Based on the economic substance of the underlying circumstances relevant to the Group, the functional currency of the Group has been determined to be the US Dollar. The US Dollar is the currency of the primary economic environment in which the Group operates. It is the currency that mainly influences the Group in determining the costs and selling price of its inventories.

*Determination of control*

Management exercises its judgment in determining whether the Parent Company has control over another entity by evaluating the substance of relationship that indicates the control of Parent Company over its subsidiaries and special purpose entity. The recognition and measurement of the Parent Company's investments over these entities will depend on the result of the judgment made.

Based on the assessment made by the Management, the Parent Company has control over its subsidiaries PT International Alliance Foods Indonesia (PTIAFI), Prime Foods NZ Ltd. (PFNZ), Big Glory Bay Salmon and Seafood, Inc. (BGB), Spence & Company, Ltd. (Spence) and Akaroa Salmon New Zealand Limited (Akaroa) as at June 30, 2014 and December 31, 2013, and special purpose entities ASFI Choice Foods, Inc. (ASFIC) and Alliance Select Foods Pte. Ltd. (ASF) as at June 30, 2014 and December 31, 2013. Accordingly, the financial statements of these entities are included in the consolidated financial statements of the Parent Company.

*Determination of joint control*

Management exercises its judgment in reassessing whether the Group has joint control over FDCP Inc. (FDCP) and Wild Catch Fisheries, Inc. (WCFI) or mere significant influence by evaluating the substance of relationship that may exist between the Group over FDCP and WCFI. The recognition and measurement of the Group's investments over FDCP and WCFI will depend on the result of the judgment made.

Based on the assessment made by the Management, the Parent Company has classified its joint arrangement as joint venture because of its rights over the net assets of FDCP, Inc. (FDCP) and Wild Catch Fisheries, Inc. (WCFI) as discussed in Note 13.

*Loss of control*

Based on the reassessment made by the Management due to the changes in circumstances arising from the restructuring of AMHI disclosed in Note 3, the Parent Company ceased to exercise control over AMHI effective December 28, 2012. As a result of the loss of control, the Group accounts for its 40% ownership in AMHI as an investment in an associate from the time the control is lost.

*Determination of significant influence*

Management exercises its judgment in determining whether the Group has control over another entity by evaluating the substance of relationship that indicates the significant influence of the Group over its associates. The recognition and measurement of the Group's investments over these entities will depend on the result of the judgment made.

Based on the assessment made by the Management, the Group has significant influence over AMHI and Salmon Smolt NZ Limited (SSNZ) as at June 30, 2014 and December 31, 2013.

*Biological assets*

Biological assets are required to be measured on initial recognition and at the end of each reporting period at fair value less costs to sell, unless fair value cannot be measured reliably. Accordingly, the management shall exercise its judgment in determining the best estimate of fair value.

After exerting its best effort in determining the fair value of the Group's biological assets, the management believes that the fair value of its biological assets cannot be measured reliably since the market determined prices or values are not available and other methods of reasonably estimating fair value are determined to be clearly unreliable. Accordingly, the Group's biological assets are measured at cost less accumulated depreciation and any accumulated impairment loss.

**Key Sources of Estimation Uncertainty**

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of each reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

*Estimating useful lives of assets*

The useful lives of the Group's assets with definite lives are estimated based on the period over which the assets are expected to be available for use. The estimated useful lives of investment properties, property, plant, and equipment, and intangibles assets are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the Group's assets. In addition, the estimation of the useful lives is based on the Group's collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded

expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of investment properties, property, plant, and equipment, and intangibles assets would increase the recognized operating expenses and decrease non-current assets.

As at June 30, 2014 and December 31, 2013, the carrying amounts and accumulated depreciation and amortization of the Group's property, plant and equipment, and intangible assets as disclosed in Notes 14, 15, and 16, respectively, are as follows:

| | **Carrying Amounts** | **Accumulated Depreciation and Amortization** |
|---|---|---|
| **June 30, 2014** | | |
| Property, plant and equipment* | **$19,282,075** | **$ 5,203,263** |
| Intangible assets** | **194,818** | **47,962** |
| | **$19,476,893** | **$ 5,251,225** |

| | **Carrying Amounts** | **Accumulated Depreciation and Amortization** |
|---|---|---|
| **December 31, 2013** | | |
| Property, plant and equipment* | $19,532,483 | $ 4,486,179 |
| Intangible assets** | 194,172 | 50,435 |
| | $19,726,655 | $ 4,536,614 |

** The above amounts for property, plant and equipment do not include carrying amount of land which is not subject to depreciation.*

*** The above amounts for intangible assets do not include carrying amount of intangible assets with indefinite useful lives which is not subject to amortization.*

*Asset impairment*

The Group performs an impairment review when certain indicators are present.

Determining the recoverable amounts of investment properties, property, plant and equipment, intangible assets, and assets held-for-sale which requires the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets requires the Group to make estimates and assumptions that can materially affect the consolidated financial statements. Any resulting impairment loss could have a material adverse impact on the Group's consolidated financial position and result of operations.

The preparation of the estimated future cash flows involves significant judgment and estimations. While the Group believes that its assumptions are appropriate and reasonable, significant changes in the assumptions may materially affect the assessment of recoverable values and may lead to future additional impairment charges.

Total carrying amounts of investments in associates, investment in joint ventures, plant and equipment and intangible assets as at June 30, 2014 and December 31, 2013 are disclosed in Notes 12, 13, 14 and 15, respectively.

As at June 30, 2014 and December 31, 2013, Management believes that the recoverable amounts of the Group's investments in associates, investment in a joint venture, property, plant and equipment, intangible assets and assets held-for-sale exceed their carrying amounts. Accordingly, no impairment loss was recognized in both years.

*Revaluation of Assets*

*Land*

The Group has adopted the fair value approach in determining the carrying value of its land. While the Group has opted to rely on independent appraisers to determine the fair value of its investment properties, such fair value was determined based on recent prices of similar properties, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices. The amounts and timing of recorded changes in fair value for any period would differ if the Group made different judgments and estimates or utilized different basis for determining fair value.

The carrying amounts of land carried at fair value as at June 30, 2014 and December 31, 2013 amounted to $1,664,440 and $1,594,298, respectively, as disclosed in Note 15. Revaluation increment in other comprehensive income amounted to $115,335 in 2011 based on the latest revaluation date.

*Estimating the fair value of refundable lease deposit at initial recognition and disclosure*

In the determination of the fair value of the refundable lease deposit, the Group applies discounted cash flow method using the effective interest rates of similar type of instruments which considers the following factors:

- expected future cash flows;
- time value of money, represented by the rate on risk-free monetary assets that have maturity dates or durations that coincide with the period covered by the cash flows;
- price for bearing the uncertainty inherent in the cash flows (i.e., a risk premium); and
- non-performance risk relating to that liability, including the obligor's own credit risk.

The carrying amounts of refundable lease deposit, as disclosed in Note 16, would be affected by changes in these factors and circumstances.

The fair values of refundable lease deposit as at June 30, 2014 and December 31, 2013 calculated using the discounted cash flow method.

*Deferred tax assets*

The Group reviews the carrying amounts at the end of each reporting period and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. However, there is no assurance that the Group will generate sufficient taxable profit to allow all or part of its deferred tax assets to be utilized.

Total deferred tax assets recognized in the consolidated statements of financial position as at June 30, 2014 and December 31, 2013, amounted to $1,126,997 and $1,408,920, respectively, as disclosed in Note 33.

*Estimating allowances for doubtful accounts*

The Group estimates the allowance for doubtful accounts related to its receivables based on the assessment of specific accounts when the Group has information that certain counterparties are unable to meet their financial obligations. In these cases judgment used was based on the best available facts and circumstances including but not limited to, the length of relationship with the counterparty and the counterparty's current credit status based on credit reports and known market factors. The Group used judgment to record specific reserves for counterparties against amounts due to reduce the expected collectible amounts. These specific reserves are re-evaluated and adjusted as additional information received impacts the amounts estimated.

The amounts and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized. An increase in the allowance for doubtful

accounts would increase the recognized operating expenses and decrease current assets.

Total trade and other receivables recognized in the consolidated statements of financial position amounted to $19,264,268 and $16,162,372, which is net of the related allowances for doubtful accounts amounting to $ 1,177,331 and $1,177,280 as at June 30, 2014 and December 31, 2013, respectively, as disclosed in Note 8.

*Estimating net realizable value of inventories*

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

Total inventories recognized in the consolidated statements of financial position amounted to $19,592,650 and $14,436,955, which is net of the related allowance for raw materials obsolescence of $67,745 as at June 30, 2014 and December 31, 2013, respectively, as disclosed in Note 9.

*Revenue recognition*

The Group's revenue recognition policies require the use of estimates and assumptions that may affect the reported amounts of revenues and receivables. Differences between the amounts initially recognized and actual settlements are taken up in the accounts upon reconciliation. However, there is no assurance that such use of estimates may not result in material adjustments in future periods.

Net Revenue recognized for the six months ended June 30, 2014 and 2013 amounted to $42,553,895 and $45,245,490, respectively, as disclosed in Note 25.

*Post-employment and other employee benefits*

The determination of the retirement obligation cost and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include among others, discount rates, expected returns on plan assets and rates of compensation increase. In accordance with PFRS, actual results that differ from the assumptions are recognized as expense and recorded as obligation in the current period. While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension and other retirement obligations.

Retirement expense amounted to $81,177 and $61,273 in the first half of 2014 and 2013, respectively, and accrued retirement obligation recognized in the statement of financial position amounted to $650,839 and $634,598 as at June 30, 2014 and December 31, 2013, respectively, as disclosed in Note 20.

## 7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at the end of each reporting period as shown in the consolidated statements of cash flows can be reconciled to the related items in the consolidated statements of financial position as follows:

| | **2014** | 2013 |
|---|---|---|
| Cash on hand and in banks | **$1,756,152** | $1,568,125 |
| Cash equivalents | **-** | - |
| | **$1,756,152** | $1,568,125 |

Cash in banks earned an average interest of 0.10% to0.25% per annum in 2014 and 2013. Cash in banks are unrestricted and immediately available for use in the current operations of the Group.

Interest income earned from cash in banks amounted to $19,035 and $8,654 in 2014 and 2013, respectively, as disclosed in Note 26.

### CASH - RESTRICTED

Cash restricted pertains to the 90% of the capital infusion thru a private placement which was held under an escrow account. The said account was released on July 31, 2014 upon compliance of the terms and conditions of the Escrow agreement.

## 8. TRADE AND OTHER RECEIVABLES – net

The Group's trade and other receivables consist of:

| | **Note** | **2014** | 2013 |
|---|---|---|---|
| Trade | | **$11,586,602** | $ 8,851,560 |
| Other: | | | |
| Related parties | 19 | **7,317,107** | 7,317,107 |
| Claims receivable | | **395,707** | 177,413 |
| Advances to employees | | **76,551** | 78,687 |
| Others | | **1,065,632** | 912,885 |
| | | **20,441,599** | 17,337,652 |
| Less allowance for doubtful accounts | | **1,177,331** | 1,175,280 |
| | | **$19,264,268** | $16,162,372 |

Receivables from related parties include from sale of fishing vessels to WCFI amounting to $6,375,000.

Claims receivable includes, but is not limited to, insurance claims and refunds from government agencies.

Others include to claims from suppliers .

The average credit period taken on sale of goods is 43 days. No interest is charged on the outstanding trade receivables even beyond their credit terms.

Trade and other receivables amounting to $8,226,835 and $5,808,960 as at June 30, 2014 and December 31, 2013, respectively, have been pledged as security for the Group's short-term loans from a foreign bank and local banks, as disclosed in Note 18.

Movements in the allowance for doubtful accounts follow:

| | Note | **2014** | 2013 |
|---|---|---|---|
| Balance, January 1 | | **$ 1,175,280** | $ 22,667 |
| Doubtful accounts expense | | **1,029** | 1,125,627 |
| Currency translation adjustment | | **1,022** | 26,986 |
| | | **$1,177,331** | $1,175,280 |

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the customer base being large and unrelated.

In 2013, the Group provided full allowance for doubtful accounts on its receivable from PT Wailan Pratama and from a certain supplier amounting to $942,107 and $183,520, respectively, as the probability of collection as at June 30, 2014 and December 31, 2013 is doubtful.

Management believes that the carrying amounts of trade and other receivables approximate their fair values as of June 30, 2014 and December 31, 2013.

## 9. INVENTORIES – net

Details of the Group's inventories are as follows:

| | **Note** | **2014** | 2013 |
|---|---|---|---|
| Finished goods | 27 | **$14,097,011** | $ 10,764,205 |
| Raw and packaging materials | | **5,173,769** | 3,337,783 |
| Parts and supplies | | **357,320** | 73,280 |
| Work-in-process | | **32,295** | 129,432 |
| | | **19,660,395** | 14,504,700 |
| Less allowance for inventory obsolescence – Raw and packaging materials | | **67,745** | 67,745 |
| | | **$19,592,650** | $ 14,436,955 |

The amount of inventories recognized as expense in 2014 and 2013 amounted to $37,452,903 and $40,933,876, respectively, as disclosed in Note 27.

The carrying amount of raw materials amounted to $5,106,024 and $3,270,038, net of allowance for inventory obsolescence as at June 30, 2014 and December 31, 2013, respectively. Movements in the allowance for inventory obsolescence are as follows:

| | **Note** | **2014** | 2013 |
|---|---|---|---|
| Balance, January 1 | | **$ 67,745** | $ 27,678 |
| Loss on inventory obsolescence | | **-** | 40,067 |
| Balance, December 31 | | **$ 67,745** | $ 67,745 |

Inventories with a carrying amount of $4,047,449 and $3,929,321 as at June 30, 2014 and December 31, 2013, respectively, have been pledged as security for the Group's short-term loans from a foreign bank with a carrying amount of $4,000,000 and $3,800,000 as at June 30, 2014 and December 31, 2013, respectively, as disclosed in Note 18.

## 10. BIOLOGICAL ASSETS

Biological assets of the Group comprised solely of consumable female smolts. Female smolts are young salmons at the stage when it migrates from fresh water to the sea.

Smolts arrive at the farm annually around October to December. They are cultured during its developmental phase which lasts around the average period of 12-18 months from the date of arrival. At this phase, water temperature is being strictly monitored not to exceed 11˚C. When the water temperature exceeds 11˚C, smolts are taken out from the water and will undergo the grading process. Grading process usually happens around July or August of each year. The survival rate of fish from grading to harvesting is about 85%.

Point of harvest is usually around February of each year and continues over a 12-month period. Daily harvest ranges from 200 - 300 salmons or double the amount depending on the season.

As at June 30, 2014 and December 31, 2013, the carrying amount of the Group's biological assets amounted to $134,059 and $220,498, respectively, which have been valued at its proxy market value of NZ$0.90 per smolt or approximately US$0.73 per smolt using the average foreign exchange rate in 2014 and 2013, respectively, less cost to sell.

Though PAS 41 requires the biological assets to be valued at fair value less cost to sell, Akaroa met the following criteria for differential reporting concessions under NZ Financial Reporting Act 1993:

a. Akaroa is not publicly accountable; and

b. Akaroa is 'not large' as defined by the Institute of Chartered Accountants of New Zealand.

Akaroa is allowed to value the smolts at average market values of 0.90 NZD as issued by the New Zealand Inland Revenue Department (IRD). The average market value issued by the IRD is considered to be the proxy for fair value of the smolts.

The fair value less estimated point-of-sale costs cannot be determined and improbable due to the following factors that affect the determination of the growth of the biological assets:

a. inclement weather, such as raging storms can cause havoc to the farm and lead to significant fish loss;

b. the quality of smolts which is a crucial factor in the achievement of the desired weight of fish; and

c. the risk of salmon disease outbreak that cannot be discounted.

The Group's biological assets are measured at fair value less estimated costs to sell.

## 11. PREPAYMENTS AND OTHER CURRENT ASSETS

The details of the Group's prepayments and other current assets are shown below.

| | Note | 2014 | 2013 |
|---|---|---|---|
| Deposits | | **$947,410** | $ 466,773 |
| Prepaid importation | | **267,747** | 353,094 |
| Prepaid taxes and licenses | | **112,389** | 106,798 |
| Input value-added tax (VAT) | | **87,269** | 80,953 |
| Prepaid insurance | | **48,327** | 46,511 |
| Prepaid rent | | **78,046** | 13,746 |
| Prepaid freight | | **8,858** | - |
| Others | | **417,713** | 296,512 |
| | | **$1,967,759** | $1,364,387 |

As at June 30, 2014 and December 31, 2013, deposits represent advance payments for raw materials, rental for office spaces and advances to WCFI in accordance with the provision of Joint Venture Agreement to be liquidated against fish purchases.

Prepaid importation pertains to the Group's advance payments of costs relating to the importation of raw materials from its foreign suppliers based on an agreed price and quantity.

## 12. INVESTMENT IN ASSOCIATES

Details and movements of the Group's investment in associates are as follows:

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | **AMHI** | **SSNZ** | **Total** | AMHI | SSNZ | Total |
| **Acquisition cost** | **$ 8,613** | **$27,319** | **$ 35,932** | $ 8,613 | $27,319 | $ 35,932 |
| **Accumulated equity in profit** | | | | | | |
| Balance, beginning of year | **260,194** | **40,712** | **300,906** | 163,713 | 31,752 | 195,465 |
| Equity in profit for the year | **44,617** | **-** | **44,617** | 96,481 | 8,960 | 105,441 |
| **Balance, end of year** | **304,811** | **40,712** | **345,523** | 260,194 | 40,712 | 300,906 |
| | **$313,424** | **$68,031** | **$381,455** | $268,807 | $68,031 | $336,838 |

### AMHI

As disclosed in Note 3, AMHI was previously classified as a subsidiary of the Parent Company. However, effective December 28, 2012, the Parent Company ceased to exercise control over AMHI due to changes in circumstances, and consequently made AMHI its associate.

The Group has 40% interest over AMHI as at June 30, 2014 and December 31, 2013.

### SSNZ

The Group has 20% interest over SSNZ through Akaroa. SSNZ engages in the farming of salmon in South Island of New Zealand and is incorporated in 2008.

The Group's Management believes that there are no indications of impairment on its investment in associates.

## 13. INVESTMENT IN JOINT VENTURES

Details and movements of the Group's investment in joint ventures are as follows:

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | **FDCP** | **WCFI** | **Total** | FDCP | WCFI | Total |
| **Acquisition cost** | **$240,964** | **$ 39,279** | **$280,243** | $240,964 | $39,279 | $280,243 |
| **Additional** | **-** | **847,701** | **847,701** | | | |
| | **$240,964** | **$886,980** | **$1,127,944** | $240,964 | $39,279 | $280,243 |
| **Accumulated equity in profit (loss)** | | | | | | |
| Balance, beginning | **319,165** | **(39,279)** | **279,886** | 349,132 | - | 349132 |
| Equity in profit (loss) for the year | **40,755** | **29,077** | **69,832** | (29,967) | (39,279) | (69,246) |
| | **359,920** | **(10,202)** | **349,718** | 319,165 | (39,279) | 279,886 |
| **Share in other comprehensive income from** | | | | | | |
| *Accumulated equity in fair value gain on available-for-sale investments* | | | | | | |
| Balance, beginning | **-** | **-** | **-** | 26,670 | - | 26,670 |
| Equity share for the year | **-** | **-** | **-** | (26,670) | - | (26,670) |
| | **-** | **-** | **-** | - | - | - |
| *Remeasurement loss on retirement* | | | | | | |
| Balance, beginning | **(88,133)** | **-** | **(88,133)** | (87,227) | - | (87,227) |
| Equity share for the year | **-** | **-** | **-** | (906) | - | (906) |
| | **(88,133)** | **-** | **(88,133)** | (88,133) | - | (88,133) |
| | **$512,751** | **$876,778** | **$1,389,529** | $471,996 | $ - | $471,996 |

### FDCP

FDCP is engaged in the manufacturing and wholesale of tin cans. The Group's ownership interest in FDCP is 40% as at June 30, 2014 and December 31, 2013.

### WCFI

On January 31, 2013, the Parent Company, CHL Fishing Industry, Inc. (CFII) and CHL Construction & Development Enterprises, Inc. (CCDEI), entered into a joint arrangement agreement to establish WCFI, an entity primarily engaged in commercial fishing within and without the Philippine waters and in the High Seas.

The Parent Company's ownership interest in WCFI, Inc. is 40% as at June 30, 2014 and December 31, 2013.

The Management believes that there is no indication of impairment on its investments in joint ventures as at June 30, 2014 and December 31, 2013.

## 14. PROPERTY, PLANT AND EQUIPMENT - net

Movements in the carrying amounts of the Group's property, plant and equipment are as follows:

| | Land | Building and Leasehold Improvements | Machinery and Equipment | Transportation Equipment | Office Furniture, Fixtures and Equipment | Plant Furniture Fixtures and Equipment | Fishing Vessels | Construction in Progress | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | | |
| Balance, January 1, 2013 | 1,599,107 | 5,115,328 | 7,087,930 | 698,995 | 335,223 | 37,261 | 11,356,396 | - | 26,230,240 |
| Additions | - | 19,536 | 497,560 | 170,944 | 33,111 | 10,414 | 1,897,995 | 308,985 | 2,938,545 |
| Reclassification | - | - | 7,862 | (36,148) | (403) | 102 | (860,297) | (253) | (889,137) |
| Disposals | - | (534) | (60,563) | (22,701) | (37,182) | - | (2,530,000) | - | (2,650,980) |
| Translation adjustment | (4,941) | (2,466) | (7,243) | (638) | (418) | - | - | - | (15,706) |
| Balance, December 31, 2013 | 1,594,166 | 5,131,864 | 7,525,546 | 810,452 | 330,331 | 47,777 | 9,864,094 | 308,732 | 25,612,962 |
| Additions | | | 518,860 | 49,459 | 59,659 | 2,870 | 10,633 | 239,618 | 881,100 |
| Reclassification | | | (20,524) | | | | | | (20,524) |
| Disposals | | | (173,140) | (16,094) | | (198) | (377,350) | | (566,782) |
| Translation adjustment | 70,142 | 37,966 | 126,883 | 8,255 | 3,324 | | (8,457) | 6,516 | 244,629 |
| Balance, June 30, 2014 | 1,664,308 | 5,169,830 | 7,977,624 | 852,072 | 393,315 | 50,449 | 9,488,921 | 553,259 | 26,149,777 |
| **Accumulated Depreciation and Amortization** | | | | | | | | | |
| Balance, January 1, 2013 | - | 716,876 | 1,804,058 | 358,611 | 240,062 | 22,021 | 75,114 | - | 3,216,742 |
| Depreciation and Amortization | - | 326,169 | 722,115 | 87,291 | 35,365 | 13,052 | 263,773 | - | 1,440,765 |
| Reclassification | - | - | (937) | | (54) | | (90) | - | (1,081) |
| Disposals | - | - | (34,590) | (40,453) | (38,531) | (2,546) | (47,437) | - | (163,557) |
| Translation adjustment | (132) | (1,364) | (4,408) | (451) | (335) | 2 | - | - | (6,688) |
| Balance, December 31, 2013 | (132) | 1,041,681 | 2,486,238 | 404,998 | 236,507 | 32,529 | 284,360 | - | 4,486,181 |
| Depreciation and Amortization | | 135,822 | 372,231 | 45,962 | 18,636 | 7,158 | 109,954 | | 689,764 |
| Reclassification | | | | | | | | | |
| Disposals | | | (37,251) | (16,094) | | | (18,868) | | (72,213) |
| Translation adjustment | | 23,356 | 69,496 | 5,015 | 2,310 | | (647) | | 99,531 |
| Balance, June 30, 2014 | (132) | 1,200,860 | 2,890,715 | 439,881 | 257,453 | 39,687 | 374,799 | | 5,203,263 |
| **Carrying Amounts June 30, 2014** | **$1,664,440** | **$3,968,970** | **$5,086,910** | **$412,191** | **$135,862** | **$10,762** | **$9,114,121** | **$553,259** | **$20,946,515** |
| Carrying Amounts December 31, 2013 | $1,594,298 | $4,090,183 | $5,039,308 | $405,454 | $ 93,824 | $15,250 | $9,579,734 | $308,732 | $21,126,781 |

The Group has pledged certain property, plant and equipment having a total carrying amount of $3,923,597 and $4,086,266 as at June 30, 2014 and December 31, 2013, respectively, to secure short-term loans granted to the Group as disclosed in Note 18, summarized as follows:

| | **2014** | 2013 |
|---|---|---|
| Building and leasehold improvements | **$1,610,950** | $1,650,624 |
| Machinery and equipment | **1,438,442** | 1,552,603 |
| Land | **854,100** | 854,100 |
| Office furniture, fixtures and equipment | **10,058** | 14,964 |
| Plant furniture, fixtures and equipment | **9,664** | 12,073 |
| Transportation equipment | **384** | 1,902 |
| | **$3,923,597** | $4,086,266 |

In addition to the above, certain property, plant and equipment of the Group have been used as securities for the long-term loans obtained from various banks and financial institutions to finance the acquisition of machinery and equipment as disclosed in Note 18. As at June 30, 2014 and December 31, 2013, respectively, the carrying amounts of the property, plant and equipment used as securities are as follows:

| | **2014** | 2013 |
|---|---|---|
| Machinery and equipment | **$1,735,461** | $1,520,749 |
| Land | **1,009,181** | 939,040 |
| Building and leasehold improvements | **825,042** | 859,182 |
| Fishing Vessel | **472,810** | - |
| Transportation equipment | **142,845** | 326,888 |
| | **$4,185,339** | $3,645,859 |

On July 16, 2013, one fishing vessel with a carrying amount of $2,482,563 was sold to WCFI for a selling price of $2,530,000, resulting in a gain of $47,437.

On January 27, 2014, the Parent Company subscribed 4,800,000 common shares to the unissued shares and 33,600,000 common shares to the increased authorized capital stock of WCFI with a par value of P1.00 per share. In payment and exclusively in exchange for its total subscription of 38,400,000 common shares in WCFI, subject to SEC's approval, the Parent Company executed a Deed of Assignment, assigning and conveying unto WCFI, its successor-in-interest, the ownership of its vessel with an appraised value of P40,548,000 or approximately $915,325. As stipulated in the joint venture agreement, the difference between the subscription price of the share and the approved appraised value shall be treated as advances by the Parent Company, for future fish deliveries of WCFI.

As a result of the above investment the Company realized a gain amounting to $537,887, as disclosed in Note 26.

A parcel of land located in New Zealand owned by the Group, through PFNZ, was revalued on the basis of market value. Latest revaluation of the land was made by John J Ryan & Associates on February 1, 2011.

Had the land of the Group been carried at cost, its carrying amount as at March 31, 2014 and December 31, 2013 would be $1,537,356 and $1,478,831, respectively.

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

Total property, plant and equipment held by the Group as at June 30, 2014 and December 31, 2013 amounted to $20,946,515 and $21,126,781, respectively.

## 15. INTANGIBLE ASSETS - net

Intangible assets pertain to fishing licenses, salmon farming consent, and mycrocystic consent. The carrying amounts of the Group's intangible assets follow:

| | Mycrocystic Consent | Salmon Farming Consent | Fishing License | Total |
|---|---|---|---|---|
| **Cost** | $24,588 | $70,627 | $173,851 | $269,066 |
| **Accumulated Amortization** | | | | |
| Balance, January 1, 2013 | - | 1,429 | - | 1,429 |
| Amortization | - | 5,721 | 8,036 | 13,751 |
| Net foreign currency exchange differences | 129 | 332 | 34,788 | 35,255 |
| Balance, December 31, 2013 | 129 | 7,482 | 42,824 | 50,435 |
| Amortization | - | 3,536 | 2,394 | 5,930 |
| Net foreign currency exchange Differences | (1,827) | (6,724) | 148 | (8,403) |
| Balance, June 30, 2014 | **(1,698)** | **4,294** | **45,366** | **47,962** |
| **Carrying Amount June 30, 2014** | **$26,286** | **$66,333** | **$128,485** | **$221,104** |
| Carrying Amount December 31, 2013 | $24,459 | $63,145 | $131,027 | $218,631 |

Macrocystic consent is a resource consent granted by the New Zealand government to the Group in relation to its salmon farming activities.

Salmon farming consent is a marine farming license to grow, among other fish, salmon in the ocean. The Group has obtained two salmon farming consents. The consents allow the Group to have fish farms in two places in Akaroa harbor. The first consent was given on May 2, 1991 for salmon farming in Lucas Bay covering almost 1.8 hectares. The second consent was given on November 27, 2000 for salmon farming in Titoki Bay where the Group can culture green and blue mussels, rock lobster, snapper, paua and other salmon species. The licenses allow the Group to utilize a total area of approximately 2.9 hectares.

Fishing license is granted by Indonesian government to the Group to do fishing activities within the Indonesian sea region.

Management believes that there is no indication that an impairment loss has occurred on its intangible assets with definite useful lives. The Group has determined, based on annual impairment testing, that the carrying amounts of intangible assets with indefinite useful life are not in excess of their net recoverable amounts.

## 16. OTHER NON-CURRENT ASSETS

Details of the other non-current assets are shown below:

| | Note | 2014 | 2013 |
|---|---|---|---|
| Refundable lease deposit | 19 | **$1,690,586** | $1,624,953 |
| Input VAT | | **257,300** | 204,802 |
| Others | | **1,826** | 1,894 |
| | | **$1,949,712** | $1,831,649 |

Refundable lease deposit pertains to lease deposit made to AMHI as at June 30, 2014 and December 31, 2013, as disclosed in Note 19.

## 17. TRADE AND OTHER PAYABLES

The details of the outstanding trade and other payables are as follows:

| | **2014** | 2013 |
|---|---|---|
| Trade | **$7,803,489** | $ 5,261,446 |
| Accrued expenses | **1,394,336** | 1,417,111 |
| Taxes payables | **141,281** | 410,741 |
| Customers' deposits | **163,951** | 112,099 |
| Others | **684,726** | 130,994 |
| | **$10,187,783** | $ 7,332,391 |

The average credit period on purchases of certain goods from suppliers is 15 to 45 days. No interest is charged on the outstanding payables even beyond their credit terms.

Details of accrued expenses are as follows:

| | **2014** | 2013 |
|---|---|---|
| Salaries, wages, and other employee benefits | **$623,580** | $ 541,211 |
| Interest | **207,227** | 164,815 |
| Employee benefits | **-** | 56,550 |
| Freight | **30,281** | 44,962 |
| Professional fees | **16,756** | 34,319 |
| Management fees | **-** | 31,778 |
| Utilities | **16,922** | 23,731 |
| Others | **499,570** | 519,745 |
| | **$1,394,336** | $1,417,111 |

## 18. LOANS PAYABLE

The details of the total outstanding loans of the Group are as follows:

**Short-term Loans**

Terms and conditions of outstanding short-term loans and borrowings are as follows:

| Creditor | Original Currency | Nominal Interest Rate % | Years of Maturity | **2014** | 2013 |
|---|---|---|---|---|---|
| Local bank | USD | 4.25 to 4.5% | 2014 | **8,000,000** | $ 7,807,416 |
| Investment bank | PHP | 4.60% | 2014 | **5,539,059** | 4,784,527 |
| Local bank | USD | 3.7% | 2014 | **6,174,639** | 4,028,116 |
| Foreign bank | USD | 6.50% | 2014 | **4,000,000** | 3,800,000 |
| Investment bank | USD | 4.25 to 4.5% | 2014 | **2,700,000** | 2,700,000 |
| Foreign bank | USD | 4.80% | 2014 | **-** | 1,250,000 |
| Local bank | USD | 4.80% | 2014 | **1,358,119** | 1,029,443 |
| Local bank | USD | 3.00 % | 2014 | **3,993,906** | 812,730 |
| Private ender | USD | 6.00 % | 2014 | **631,667** | 640,000 |
| Foreign bank | USD | 10.00% | 2014 | **201,960** | 162,148 |
| Foreign bank | USD | 10.00% | 2014 | **172,672** | 451,719 |
| | | | | **32,772,022** | 27,466,099 |
| Add: Current portion of long-term loans | | | | **1,167,095** | 1,144,299 |
| | | | | **$33,939,117** | $28,610,398 |

Loans from local banks aggregating to $19,526,664 and $13,677,705 as at June 30, 2014 and December 31, 2013, respectively, and loans from a foreign bank with an outstanding balance of $172,672 and $451,719 as at June 30, 2014 and December 31, 2013, respectively are revolving facilities in the form of export packing credit, export bills purchase, receivable financing, and import letters of credit and trust receipts. These are secured by the receivables and inventories.

Loans from a foreign bank, with an outstanding balance of $4,000,000 and $3,800,000 as at June 30, 2014 and December 31, 2013, respectively, is secured by the Group's assets with a carrying amount of $9,765,271 and $9,497,836, respectively, with break down as follows:

| | **Notes** | **2014** | 2013 |
|---|---|---|---|
| Trade and other receivables | 8 | **$2,644,917** | $1,482,249 |
| Inventories | 9 | **4,047,449** | 3,929,321 |
| Property, plant and equipment | 14 | **3,923,597** | 4,086,266 |
| | | **$10,615,963** | $9,497,836 |

The Group received loan of $640,000 from a non-financial institution to finance the acquisition and upgrade of the fishing vessels. This facility is secured with the fishing vessels financed by the loan and corporate guarantee from PTIAFI.

All other loans from an investment bank and a foreign bank are clean short term facilities through the issuance of promisory notes to finance the Comapany's working capital requirements. The term ranges from 30 to 180 days payable upon maturity. The amount includes the current portion of long-term debt.

**Long-term Loans**

| Creditor | Original Currency | Nominal Interest Rate % | Years of Maturity | **2014** | 2013 |
|---|---|---|---|---|---|
| Local bank | USD | 6-Mos Libor + 3.75% | 2016 | **$1,964,287** | $2,142,858 |
| Local bank | USD | 90Day PDSTF + 5% | 2016 | **1,428,571** | 1,571,429 |
| Foreign bank | USD | 7.22% | 2015 | **574,645** | 635,166 |
| Foreign bank | NZD | 10.2%-11.1% | 2024 | **583,450** | 559,792 |
| Local bank | USD | 4.31% | 2016 | **336,875** | 433,125 |
| Local bank | USD | 9.18% | 2015 | **141,625** | 160,947 |
| HC Studholme | NZD | 7.50% | | **124,420** | 115,773 |
| Foreign Finance Corporation | NZD | 9.90% | 2016 | **53,652** | 49,924 |
| Individual | NZD | Non-interest bearing | 2016 | **43,810** | 40,766 |
| | | | | **5,251,335** | 5,709,780 |
| Less: Current portion of long-term loans | | | | **1,167,095** | 1,144,299 |
| | | | | **$4,084,240** | $4,565,481 |

The long-term loans with an outstanding balance of $1,964,287 and $1,428,571 as at June 30, 2014 and $2,142,858 and $1,571,429 as at December 31, 2013, are secured by a guarantee up to 90% of the principal amount by Philippine Export Import Credit Agency (PHILEXIM) and assignment of Spence shares of stocks. The proceeds of the loan was utilized to partially finance the acquisition of 100% stake in Spence.

The outstanding mortgage loan of $32,001and $84,365, net of current portion of $87,730 and $76,582, as at June 30, 2014 and December 31, 2013, respectively, pertains to loans availed by the Group from a certain local bank to finance the acquisition of the Group's transportation equipment, as disclosed in Note 14. Transportation equipment under mortgage has a carrying amount of $142,845 and $163,362 as at June 30, 2014 and December 31, 2013, respectively. Interest rate is 9.18% per annum, payable on a monthly basis and maturing in June 2016.

The Group entered into a five-year loan facility with a local bank in the principal amount of $770,000 drawn on February 9, 2011 to partially finance the construction of the salmon processing plant and acquisition of plant machinery and equipment. This is secured by a chattel on the Group's machinery and equipment and building and leasehold improvements with a carrying value of $1,613,911 and $1,667,647 as of June 30, 2014 and December 31, 2013, respectively. Moreover, the Parent Company executed a guarantee agreement in favor of Land Bank of the Philippines as part of the security for the credit facilities obtained by BGB.

On April 23, 2012, the Group entered into a Facility Agreement with a foreign bank. This facility has a maximum amount of $300,000. The outstanding loans drawn from this facility are due within three years with eight months grace period from the date of agreement.

On September 5, 2013, the Group entered loan facility from PT Rabobank International Indonesia to finance the capital expenditure requirement for the purchase of fishing vessels and fishing gears. The loan has maximum amount of $720,000 or 80% of the purchase price of the fishing vessels and gear (whichever is the lower) and subject to annual interest equal to the lender's cost of funding plus 3.75%. The outstanding amount drawn from this facility is due within 3 years with 6 months grace period. This facility is secured with the Group's vessels.

**Loan Covenants**

The guarantee agreement with PHILEXIM, and credit line agreement with a local bank requires the Group to give prior notice with respect to disposition of all or a materially significant portion of its property or assets, material changes in its ownership structure and management, acquisition of stocks, encumbrance of any of its assets, incurrence of any major capital expenditures and extending loan to others except in the ordinary course of business for as long as the Group is within the prescribed financial ratios. However, in case the Group goes beyond the stipulated financial ratios, requests, to do any of the actions enumerated above shall require the prior approval of PHILEXIM and a local bank, which shall be acted upon within a reasonable time. As at June 30, 2014, the Group was generally in compliance with its loan covenant on debt-to-equity ratio and interest coverage ratio as imposed by PHILEXIM. On the other hand, current ratio and interest coverage ratio slightly fell below the specified level imposed by a local bank. These circumstances did not have any adverse effect on the Group's borrowing capacity and overall operation.

## 19. RELATED PARTY TRANSACTIONS

The summary of the Group's transactions and outstanding balances with related parties as at and for the period ended June 30, 2014 is as follows:

| Nature of Transactions | Amounts | Outstanding Balances | | Terms | Condition | Notes | |
|---|---|---|---|---|---|---|---|
| | | | Receivable | Payable | | | |
| **Associates** | | | | | | | |
| **Advances granted** | | | | | | | |
| AMHI | **24,813** | **$ 619,718** | | **-** | 5.6% interest; Payable on demand | Unsecured, no impairment | 19.a |
| SSNZ | **-** | **27,245** | | **-** | 0% to 5.6% Interest; Payable on demand | Unsecured, no impairment | |
| **Refundable lease deposit** | | | | | | Unsecured, no | |
| AMHI | **39,489** | **1,690,586** | | **-** | Payable after 5 years | impairment | 19..b |
| **Lease** | | | | | | | |
| AMHI | **358,079** | **-** | | **-** | n.a | n.a. | 19.b |
| **Joint Ventures** | | | | | | | |
| **Advances granted** | | | | | | | |
| WCFI | **57,236** | **234,377** | | **-** | 0% interest; Payable on demand | Unsecured, no impairment | 19.d |
| **Sale of asset** | | | | | 0% interest; Payable | | |
| WCFI | **-** | **6,375,000** | | **-** | on Dec.31, 2014 | n.a. | 19.e |
| **Sublease** | | | **-** | **-** | | | |
| WCFI | **302** | | | | | n.a. | |
| BGB | **1,816** | | | | | n.a. | |
| **Advances as fish deposit** | | | | | 0% interest; per JV | | |
| WCFI | **462,090** | **838,098** | | **-** | agreement | n.a. | 19.d |
| **Purchases** | | | | | | | |
| FDCP | **2,488,273** | **-** | | **-** | n.a. | n.a. | 19.i |
| **Subsidiary of Venturer** | | | | | | | |
| **MCC** | | | | | | | |
| Lease | **5,696** | **-** | | **-** | 10% interest; Payable | Unsecured, no | |
| Advances obtained | **114,176** | **-** | | **114,176** | on demand | impairment | |
| **Shareholder of Subsidiaries with Significant Influence** | | | | | | | |
| **Advances obtained** | | | | | | | |
| Duncan Bates | **-** | **-** | | **173,473** | 0%-5% interest; Payable on demand | Unsecured, no impairment | 19.g |
| **Other receivable** | | **$6,375,000** | | | | | |
| **Due from Related Parties** | | **$ 881,340** | | | | | |
| **Due to Related Parties** | | | | **$287,649** | | | |
| **Refundable lease deposit** | | **$1,690,586** | | | | | |
| **Prepayment and Other Current Assets** | | **$838,098** | | | | | |

The summary of the Group's transactions and outstanding balances with related parties as at and for the year ended December 31, 2013 is as follows:

| Nature of Transactions | Amounts | Outstanding Balances | | Terms | Condition | Notes | |
|---|---|---|---|---|---|---|---|
| | | Receivable | Payable | | | | |
| **Associates** | | | | | | | |
| **Advances granted** | | | | | | | |
| AMHI | **$17,560** | **$ 594,905** | **-** | | 5.6% interest; Payable on demand | Unsecured, no impairment | 19.a |
| SSNZ | **-** | **25,351** | **-** | | 0% to 5.6% Interest; Payable on demand | Unsecured, no impairment | |
| **Refundable lease deposit** | | | | | | | |
| AMHI | **-** | **1,624,953** | **-** | | Payable after 5 years | Unsecured, no impairment | 19.b |
| **Lease** | | | | | | | |
| AMHI | **753,983** | **-** | **-** | | n.a | n.a. | 19.b |
| **Joint Ventures** | | | | | | | |
| **Advances granted** | | | | | | | |
| WCFI | **177,141** | **177,141** | **-** | | 0% interest; Payable on demand | Unsecured, no impairment | 19.d |
| **Sale of asset** | | | | | | | |
| WCFI | **6,375,000** | **6,375,000** | **-** | | 0% interest; Payable on Dec.31, 2014 | n.a. | 19.e |
| **Sublease** | | | | | | | |
| WCFI | **412** | **-** | **-** | | | n.a. | |
| **Advances as fish deposit** | | | | | | | |
| WCFI | **376,008** | **376,008** | **-** | | 0% interest; per JV agreement | n.a. | 19.d |
| **Purchases** | | | | | | | |
| FDCP | **3,152,326** | **-** | **-** | | n.a. | n.a. | 19.i |
| **Venturer** | | | | | | | |
| **Advances granted** | | | | | | | |
| FDPHI | - | **13,088** | | | 0% interest; Payable on demand | Unsecured, no impairment | |
| **Subsidiary of Venturer** | | | | | | | |
| **Advances paid** | | | | | | | |
| MCC | **986,850** | **-** | **-** | | 10% per annum on the 1st P50M and 8% on excess; Payable after one year | Unsecured, no impairment | |
| **Lease** | | | | | | | |
| MCC | **41,738** | **-** | **-** | | | - | 19.f |
| **Shareholder of Subsidiaries with Significant Influence** | | | | | | | |
| **Advances obtained** | | | | | | | |
| Duncan Bates | **117,765** | **-** | **143,763** | | 0% interest; Payable on demand | Unsecured, no impairment | 19.g |
| **Provision for Doubtful Accounts** | | | | | | | |
| PT Wailan Pratama | **(942,107)** | **-** | **-** | | 0% interest; Payable on demand | Unsecured, impaired | 19.h |
| **Retirement Fund** | | | | | | | |
| Contribution | **99,113** | **-** | **-** | | | n.a. | |
| **Other receivable** | | **$6,375,000** | | | | | |
| **Due from Related Parties** | | **$ 810,484** | | | | | |
| **Due to Related Parties** | | | **$143,763** | | | | |
| **Refundable lease deposit** | | **$1,624,953** | | | | | |
| **Prepayment and Other Current Assets** | | **$ 376,008** | | | | | |

**Significant Contract Agreements**

a. The Group extended cash advances to AMHI which the latter used as down payment to purchase from MCC the plant facilities located at General Santos City.

b. The Group entered into a contract with MCC for the operating lease of the latter's land, plant, machinery and equipment in Barrio Tambler, General Santos City (Gensan Plant). The lease term started from March 1, 2004 and expired on December 23, 2010.

   Upon expiration of the lease contract between the Group and MCC, the latter leased the Gensan Plant for one month or until January 23, 2011 to AMHI which in turn sub-leased the Gensan Plant to the Group.

   The lease contract between MCC and AMHI was extended to a much longer term effective January 24, 2011 to December 23, 2013; thus, enabling AMHI to sublease the Gensan Plant to the Group for the same period.

   Following the acquisition of MCC's property by AMHI, the contract of lease between MCC and AMHI was likewise terminated on May 16, 2011. On the same date, ASFII directly leased the property from AMHI for a term of 3 years until May 15, 2014.

   A Memorandum of Understanding with Deed of Assignment (MOU-DA) was executed between the Group and AMHI on December 28, 2012. Under the MOU-DA, the parties intend to enter into a long-term lease contract in order to secure long-term possession of the land. The contemplated long-term lease will require the Parent Company to pay AMHI a security deposit in an amount equivalent to 36 months of the first year's monthly rental or equivalent to $2,029,579. In order to pay the security deposits contemplated by the proposed long-term lease agreement, the Group assigned, endorsed and transferred its refundable lease deposits from MCC to AMHI with a revalued amount of $2,020,456 on December 31, 2012, and the Group shall pay AMHI an additional amount of $9,123 to complete the amount of the required security deposit.

   The Group's refundable lease deposit receivable from AMHI was discounted at 4.2169% over five years resulting in a present value amounting to $1,650,879 as disclosed in Note 16. The difference between its fair value and present value amounting to $378,700 is recognized as finance cost as disclosed in Note 35. In 2013, the related interest accretion of the discounted lease deposit resulted in interest income amounting to $67,559 included as part of miscellaneous income as disclosed in Note 26. As at March 31, 2014 and December 31, 2013, the present value of the refundable lease deposit amounted to $1,646,756 and $1,624,953, respectively as disclosed in Note 16.

   On January 2013, a long term contract was executed between the Group and AMHI, superseding the lease contract made on May 16, 2011. The new term shall be for a period of five (5) years commencing on January 1, 2013 and expiring on December 31, 2017, unless sooner terminated by any party for cause. The lease shall be renewable every five (5) years, upon such terms and conditions mutually agreeable to the parties. Based on the contract, the rental fee shall be P2,403,065 with US dollar equivalent of $58,540, based on foreign exchange rate of January 1, 2013, subject to an annual escalation rate of 5% or the national inflation rate as published by the National Statistics Office, whichever is higher. The lease is classified as operating lease as disclosed in Note 30.

c. On December 28, 2012, a Deed of Absolute Sale was executed between the ASFII and AMHI whereby the Company acquired some of AMHI's property, plant and equipment with an aggregate purchase price of $2,080,218, as disclosed in Note 14.

d. The Parent Company extended advances to WCFI which were used to finance WCFI's pre-operating expenses and working capital requirements. In addition, the Parent

Company paid WCFI deposits for the purchase of tuna catch. The terms and application of these deposits against purchase price shall be subject to the terms and conditions of the Joint Venture agreement between the parties. The outstanding balance is presented as deposits under Prepayments and Other current assets.

e. In 2013, the Parent Company sold three (3) fishing vessels with total carrying amount of $6,303,531 to WCFI for total selling price of $6,375,000, resulting in a gain of $71,469.

f. The Group leases from MCC an office condominium unit where its head office is located for a period of two years from January 1, 2012 to December 31, 2013, with a monthly rental fee of $3,485, renewable by mutual agreement of both parties. The lease contract was renewed on January 13, 2014 commencing from January 1, 2014 until March 19, 2014, with a monthly rental fee of $2,180. The lease is classified as operating lease as disclosed in Note 30.

g. Duncan D. Bates extended a non-interest bearing cash advance to Akaroa as part of the Share Purchase Agreement for its working capital requirements.

h. In 2013, the Group provided full allowance for doubtful accounts on its receivable from PT Wailan Pratama amounting to $942,107 as the probability of collection as at December 31, 2013 is doubtful as disclosed in Note 8.

i. The Group, in the ordinary course of business, purchases tin cans used as raw materials from FDCP, Inc. at arm's-length basis.

**Intra-group Amounts and Balances**

Upon consolidation, significant intra-group amounts and balances are eliminated to reflect the Group's consolidated financial position and performance as a single entity.

Intra-group receivables as at June 30, 2014 and December 31, 2013 that are eliminated upon consolidation are as follows:

| | **2014** | 2013 |
|---|---|---|
| Parent Company's receivable from: | | |
| BGB | **$4,337,947** | $3,422,532 |
| PTIAFI | **1,864,373** | 1,356,420 |
| PFNZ | **570,695** | 512,016 |
| Akaroa | **341,651** | 248,405 |
| Spence | **26,718** | 25,000 |
| | **7,141,384** | 5,564,373 |
| BGB's receivable from PFNZ | **2,142,060** | 1,295,138 |
| Spence's receivable from Parent Company | **316,667** | 566,667 |
| PFNZ's receivable from BGB | **359,937** | 103,617 |
| PTIAFI's receivable from Parent Company | **-** | 5,236 |
| | **$9,960,048** | $7,535,031 |

Intra-group payables as at June 30, 2014 and December 31, 2013 eliminated upon consolidation are as follows:

| | **2014** | 2013 |
|---|---|---|
| Payable to Parent Company: | | |
| BGB | **$4,337,947** | $3,422,532 |
| PTIAFI | **1,864,373** | 1,356,420 |
| PFNZ | **552,261** | 515,019 |
| Akaroa | **341,651** | 248,496 |
| Spence | **26,718** | 25,000 |
| | **7,122,950** | 5,567,467 |
| PFNZ's payable to BGB | **2,142,060** | 1,284,335 |
| Parent Company's payable to Spence | **316,667** | 566,667 |
| BGB's payable to PFNZ | **359,937** | 103,621 |
| Parent Company's payable to PTIAFI | **-** | 5,236 |
| | **$9,941,614** | $7,527,326 |

Other intra-group income and expense balances for the three ended June 30, 2014 and 2013 that are eliminated upon consolidation are as follows:

| | **2014** | 2013 |
|---|---|---|
| Sales | **$2,185,649** | - |
| Cost of Sales | **2,085,389** | - |
| Commission income | **197,863** | 132,853 |
| Management fee | **150,000** | 75,000 |
| Interest expense | **-** | 2,083 |

As a result of the above intra-group accounts eliminations, the Group recognized net currency translation adjustments $18,434 and $7,705 in 2014 and 2013, respectively.

## 20. RETIREMENT BENEFIT

The Group values its defined benefit obligation using Projected Unit Credit Method by the service of an independent actuary and accrues retirement benefit expense for its qualified employees based on the minimum retirement benefit provided under Republic Act No. 7641 equivalent to one-half month salary per year of service, a fraction of at least six months being considered as one whole year. One-half month salary is defined as 15 days plus 1/12 of the 13th month pay and the cash equivalent of not more than five days of service incentive leaves. The benefit shall be payable to employees who retire from service who are at least sixty years old and with at least five years of continuous service.

The Parent Company executed a Trust Agreement with Land Bank of the Philippines on January 13, 2011, establishing the Parent Company's Retirement Plan. As of December 31, 2013 and 2012, only the Parent Company's retirement obligation is funded.

The plan typically exposes the Parent Company to actuarial risks such as: investment risk, interest rate risk, longevity risk and salary risk.

*Investment risk*

The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to high quality corporate bond yields; if the return on plan asset is below this rate, it will create a plan deficit. Currently the plan has a relatively balanced investment in cash and cash equivalents and debt instruments. Due to the long-term nature of the plan liabilities, the board of the pension fund considers it appropriate that a reasonable portion of the plan assets should be invested in fixed income securities.

*Interest risk*

A decrease in the government bond interest rate will increase the plan liability; however, this will be partially offset by an increase in the return on the plan's debt investments.

*Longevity risk*

The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.

*Salary risk*

The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability.

No other post-retirement benefits are provided to the Group's employees.

The most recent actuarial valuation was carried out at December 31, 2013 by independent actuaries.

## 21. SHARE CAPITAL

| | **Shares** | **2014** | Shares | 2013 |
|---|---|---|---|---|
| Authorized: | | | | |
| Ordinary shares of P1 par value each | **1,500,000,000** | **P1,500,000,000** | 1,500,000,000 | P1,500,000,000 |
| Issued, fully paid and outstanding | | | | |
| Beginning | **1,500,000,000** | **$ 32,238,544** | 1,069,426,237 | $ 22,575,922 |
| Additional issuance | **-** | **-** | - | - |
| Total issued and fully paid | **1,500,000,000** | **32,238,544** | 1,069,713,774 | 22,575,922 |
| Treasury shares | **(287,537)** | **(5,774)** | (287,537) | (5,774) |
| | **1,499,712,463** | **$ 32,232,770** | 1,069,426,237 | $ 22,570,148 |

The Parent Company has one class of ordinary shares which have a par value of P1, carry one vote per share but do not carry a right to fixed income.

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

| Transaction | Subscriber | Registration/ Issue Date | Number of Shares Issued |
|---|---|---|---|
| Listing of common shares | Various | November 8, 2006 | 401,099,610 |
| IPO | Various | November 8, 2006 | 134,000,000 |
| Stock dividend | Various | December 17, 2007 | 64,177,449 |
| Stock rights offer (SRO) | Various | July 25,2011 | 272,267,965 |
| Stock dividend | Various | January 25, 2012 | 137,500,000 |
| Sale of shares | Various | November 28, 2012 | 60,668,750 |
| Sale of shares | Various | May 5, 2014 | 430,286,226 |
| | | | 1,499,712,463 |

On October 23, 2006, the Parent Company launched an Initial Public Offering (IPO) of 134,000,000 common shares at an offer price of P1.35. The offered shares represented 25.04% of the Parent Company's issued and outstanding capital stock. The Parent Company raised net proceeds of $3,304,556 from the IPO. On November 8, 2006, the Parent Company's shares of stocks totaling 535,099,610 shares were listed with the Philippine Stock Exchange (PSE).

On June 26, 2007, the Parent Company declared 12% stock dividends corresponding to 64,177,449 shares with a value of $3,000,070 to all stockholders of record as of November 20, 2007, where stocks were subsequently issued on December 17, 2007.

On July 25, 2011, the Parent Company issued an additional 272,267,965 shares arising from its stock rights offer, which entitled each eligible investor to one rights share for every two and two-tenths (2.2) existing common shares held as at June 13, 2011 record date.

In its meeting on August 1, 2011, the Board of Directors approved the increase in the Parent Company's authorized capital stock from P950,000,000 divided into 950,000,000 shares to P1,500,000,000 divided into 1,500,000,000 shares with a par value of P1 per share. The same resolution was approved by the stockholders in their meeting on August 1, 2011. The increase in capital stock was approved by the SEC on November 25, 2011.

On January 25, 2012, the Parent Company issued the 15.78% stock dividend declared on August 1, 2011, as discussed in Note 26.

On October 1, 2012, the Parent Company received additional subscription from certain shareholders for private placement purposes amounting to US$2,329,033. The transaction resulted in a share premium amounting to $873,392. The fund raised from the said private placement was used to finance the Parent Company's acquisition of 80% stake in Akaroa.

On November 28, 2012, the PSE approved the application of the Parent Company to list additional 60,668,750 common shares (the "Private Placement Shares"), with a par value of P1.00 per share, to cover its private placement transactions with various subscribers. The Private Placement Shares were issued to the subscribers at a subscription price of P1.60 per share with an aggregate transaction value of P97,070,000.

On May 5, 2014, the Parent Company issued 430,286,226 common shares from certain shareholder for private placement purposes amounting to US$12,658,035. The transaction resulted in a share premium amounting to $2,995,413.

On July 23, 2014, the PSE approved the application of the Parent Company to list additional 430,286,226 common shares (the "Private Placement Shares"), with a par value of P1.00 per share, to cover its private placement transaction. The Private Placement Shares were issued to the subscriber at a subscription price of P1.31 per share with an aggregate transaction value of P563,674,956.

As at June 30, 2014 December 31, 2013 and 2012, the number of holders of securities issued is 245 and 238, respectively.

## 22. NON-CONTROLLING INTEREST

| | Notes | 2014 | 2013 |
|---|---|---|---|
| Balance, beginning | | **$ (278,551)** | $ 59,625 |
| Share in profit for the year | | **408,089** | (338,020) |
| Remeasurement loss | | **-** | (164) |
| Translation adjustment | | **(13,687)** | 8 |
| | | **$115,850** | ($278,551) |

## 23. RESERVES

This account consists of:

| | Notes | 2014 | 2013 |
|---|---|---|---|
| Additional paid-in capital | | **$6,817,145** | $3,821,732 |
| Cumulative currency translation adjustments | | **131,251** | 171,735 |
| Revaluation increment | 15 | **71,677** | 71,677 |
| | | **$7,020,073** | $4,065,144 |

The revaluation increment amounting to $71,677 arose from the share of the Group in the excess of revalued amounts over its cost. There has been no revaluation made since the latest revaluation disclosed in Note 14.

As at June 30, 2014 and December 31, 2013, land has been carried at its revalued amounts of $1,664,440 and $1,594,298, respectively, as discussed in Note 14.

Fair value on investment revaluation reserve arises from the accumulated share in other comprehensive income of a joint venture, FDCP. The share in other comprehensive income of a joint venture arises from the accumulated fair value gain on the joint venture's available-for-sale investments and remeasurement gains or losses on retirement obligation.

Translation reserve comprises all foreign currency differences arising from the translation of the separate financial statements of the Group's foreign subsidiaries whose functional currencies differ from the Group's functional currency.

## 24. DIVIDENDS DECLARED

On August 1, 2011, the Parent Company declared a 15.78% share dividends corresponding to 137,500,000 shares with a par value of $3,258,912 to all shareholders of record as at January 25, 2012. On the date of dividend declaration, these share dividends are recorded at fair market value of $4,008,462 and the excess of $749,550 is recorded as part of share premium. These shares of stock were issued on January 25, 2012.

## 25. REVENUE - net

An analysis of the Group's net revenue is as follows:

| | **2014** | 2013 |
|---|---|---|
| Sales of goods | **$42,902,718** | $45,259,598 |
| Less: Sales returns | **326,400** | - |
| Sales discounts | **22,423** | 14,108 |
| | **$42,553,895** | $45,245,490 |

## 26. OTHER INCOME

An analysis of the Group's other income is as follows:

| | **Notes** | **2014** | 2013 |
|---|---|---|---|
| Gains on transfer of fishing vessel as investment | 14 | **$537,887** | $529,590 |
| Foreign exchange gain | | **449,378** | 440,393 |
| Interest income from cash in banks | 7 | **26,329** | 8,654 |
| Miscellaneous | | **17,181** | 30,603 |
| | | **$1,030,775** | $1,009,240 |

.

## 27. COST OF GOODS MANUFACTURED AND SOLD

| | Notes | 2014 | 2013 |
|---|---|---|---|
| Materials used | | **$31,384,640** | $32,903,676 |
| Direct labor | | **3,626,323** | 3,718,750 |
| Manufacturing overhead: | | | |
| Fuel | | **993,263** | 701,527 |
| Fishmeal | | **825,893** | 920,088 |
| Rental | 19, 30 | **481,892** | 409,145 |
| Depreciation and amortization | 14 | **521,529** | 520,361 |
| Indirect labor | | **424,401** | 534,106 |
| Light and water | | **401,606** | 333,033 |
| Consumables | | **238,158** | 291,631 |
| Repairs and maintenance | | **234,005** | 297,343 |
| Warehousing | | **535,300** | 376,904 |
| Taxes and Licenses | | **48,341** | 32,379 |
| Laboratory | | **154,804** | 247,805 |
| Freight and handling | | **266,763** | 263,066 |
| Outside services | | **118,958** | 194,171 |
| Insurance | | **65,149** | 74,888 |
| Security fees | | **39,416** | 54,552 |
| Representation and entertainment | | **37,502** | 58,664 |
| Travel and communication | | **57,376** | 50,309 |
| Professional fees | | **21,713** | 3,661 |
| Amortization of prepayments | | **50,821** | 34,159 |
| Others | | **257,856** | 324,222 |
| Total manufacturing costs | | **40,785,709** | 42,344,440 |
| Finished goods, beginning | 9 | **10,764,205** | 7,093,854 |
| Total cost of goods manufactured | | **51,549,914** | 49,160,879 |
| Finished goods, ending | 9 | **14,097,011** | 8,504,418 |
| Cost of goods manufactured and sold | | **$37,452,903** | $40,933,876 |

Other manufacturing overhead includes cooperative labor services and office.

## 28. SELLING AND ADMINISTRATIVE EXPENSES

| | Notes | 2014 | 2013 |
|---|---|---|---|
| Salaries, wages and other short-term benefits | | **$1,284,096** | $1,399,180 |
| Doubtful accounts expense | 8 | **-** | 189,485 |
| Freight and handling | | **419,282** | 356,229 |
| Advertising and marketing | | **296,788** | 264,351 |
| Transportation and travel | | **208,800** | 248,589 |
| Outside services | | **198,151** | 256,875 |
| Business development | | **175,744** | 157,526 |
| Depreciation and amortization | 14, 15 | **158,010** | 224,551 |
| Documentary stamp tax | | **126,112** | 69,064 |
| Taxes and licenses | | **115,742** | 139,619 |
| Materials and supplies | | **87,337** | 53,502 |
| Rental | 19, 30 | **81,967** | 79,330 |
| Retirement benefit | 20 | **81,177** | 61,273 |
| Representation and entertainment | | **80,267** | 113,931 |
| Utilities and communication | | **80,101** | 76,290 |
| Insurance | | **77,980** | 68,956 |
| Other personnel expenses | | **61,907** | 26,630 |
| Repairs and maintenance | | **41,511** | 28,757 |
| Fuel and oil | | **37,164** | 46,218 |
| Fringe benefit tax | | **20,613** | 13,536 |
| Membership dues | | **14,070** | 19,372 |
| Condominium dues | | **13,714** | 5,581 |
| Others | | **149,564** | 75,383 |
| | | **$3,810,097** | $3,974,228 |

Others include buyer's claim, documentary stamps, postage and export documentation expenses.

## 29. OTHER EXPENSES

| | 2014 | 2013 |
|---|---|---|
| Bank charges | **$96,891** | $73,473 |
| Others | **5,725** | 4,221 |
| | **$102,616** | $77,694 |

## 30. OPERATING LEASE AGREEMENTS

### The Group as Lessee

The Group entered into a number of lease agreements classified as operating leases summarized as follows:

a. On January 25, 2013, a long term contract was executed between the Group and AMHI. The term shall be for a period of five (5) years commencing on January 1, 2013 and expiring on December 31, 2017, unless sooner terminated by any party for cause. The lease shall be renewable every five (5) years, upon such terms and conditions mutually agreeable to the parties. Based on the contract, the rental fee shall be P2,403,065 with US dollar equivalent of $58,540, based on foreign exchange rate of January 1, 2013, subject to an annual escalation rate of 5% or the national inflation rate as published by the National Statistics Office, whichever is higher. Pursuant to the lease contract, the Group required to pay AMHI a total security deposit equivalent to 36 months of the first year's monthly rental as disclosed in Note 19.

b. The Group leased from MCC an office condominium unit where its head office is located for a period of two years from January 1, 2012 to December 31, 2013, with a monthly rental fee of $3,485, renewable by mutual agreement of both parties. The lease contract was renewed on January 13, 2014 commencing from January 1, 2014 until March 19, 2014, with a monthly rental fee of $2,180. The lease is classified as operating lease as disclosed in Note 30.

c. On April 1, 2009 and July 1, 2010, the Group leases from Luthi Machinery Company, Inc. the two Solid Pack canning machines, serial No. SPD8-93 and SP156-95 for a period of five (5) years with an annual minimum rental of $36,000 and $58,000, respectively. Lessee agrees to pay an overage rental of $0.137 and $0.131, respectively, per case packed of filled by Lessee during each year when production from the machine during each year of the Lease term exceeds 275,000 and 300,000 cases, respectively. The lease term is renewable by mutual agreement of both parties.

d. The Group leases from Gael Land the manufacturing, warehouse and office space, in United States, for a period of nine (9) years from January 1, 2012 to May 31, 2020, renewable by mutual agreement of both parties. In consideration of the use of the leased premises, the Group pays a monthly rental of $17,900. The long-term lease will require the Group to pay the Lessor a refundable security deposit in an amount equivalent to two months rental or equivalent to $35,800.

e. In August 2012, the Group leases from Baruch Estate the manufacturing and office space, in New Zealand, for a period of five (5) years from August 2012 to July 2017, renewable by mutual agreement of both parties. Lessee agrees to pay a monthly rental of $4,705.

f. The Group leases from Dominion Property Holdings Corporation an office condominium units where its head office is located for a period of one year from January 1, 2014 to December 31, 2014, with a monthly rental fee of $6,286, renewable by mutual agreement of both parties. The lease is classified as operating lease as disclosed in Note 30.

Total rental expense charged in profit and loss in relation to these lease agreements amounted to $563,859 and $488,475 in 2014 and 2013, respectively, as disclosed in Notes 27 and 28.

Total rental deposits recognized in the consolidated statements of financial position, as part of other non-current assets, amounted to $1,690,586 and $1,624,952 as at June 30, 2014 and December 31, 2013, respectively as disclosed in Notes 16 and 19. Outstanding prepaid rentals presented in the consolidated statements of financial position, as part of prepayments and other current assets, amounted to $78,046 and $13,746 as at June 30, 2014 and December 31, 2013, respectively, as disclosed in Note 11.

## 31. CORPORATE SOCIAL RESPONSIBILITY

The Group is on its 6th year of giving back to the community by means of a Feeding Program which aims to sustainably feed underweight high school students in an attempt to combat frequent absences and poor academic performance.

The Feeding Program is conducted on a daily basis. The food preparation and service is a collaboration of labor of volunteer parents and teachers. Weight and Performance Progress Monitoring is conducted by the company nurses of Alliance Select Foods International, Inc. For the year 2013, a total of 139 underweight students benefited from the Feeding Program conducted in Banisil High School, 105 and 34 participants from Grades 7 and 8 respectively. Within the same year, the Company has donated a Weighing Scale to the school as an aid in gauging the improvement in the weights of the participants to the program. Bawing National High School was also chosen by the company to be the recipient of canned tuna products per month for their own feeding program which benefited 16 undernourished students.

The Group also provided aid to the typhoon-stricken areas in Tacloban and the rest of Leyte during the aftermath of Typhoon Yolanda (Haiyan). Tuna donations were given to the victims through the Philippine Red Cross.

## 32. FINANCE COSTS

The composition of finance costs based on its source is as follows:

| | **Notes** | **2014** | 2013 |
|---|---|---|---|
| Short-term loans | 18 | **$653,027** | $583,303 |
| Long-term loans | 18 | **132,195** | 160,295 |
| Advances from a related party | 19 | **126,762** | 97,667 |
| | | **$911,984** | $841,265 |

## 33. INCOME TAXES

*Income tax expense (benefits)*

| | **2014** | 2013 |
|---|---|---|
| Current tax expense | **$ 437,446** | $267,135 |
| | **$ 437,446** | $267,135 |

*Deferred tax assets*

Deferred tax assets as at June 30, 2014 and December 31, 2013 amounted to 1,126,997 and $1,408,920, respectively, arising from net operating loss carry-over (NOLCO), minimum corporate income tax (MCIT), allowance for doubtful accounts, excess of retirement expense over contribution, accrued expenses.

*Deferred tax liabilities*

Deferred tax liabilities as at June 30, 2014 and December 31, 2013 amounted to $258,604 arising from unrealized foreign exchange gain and excess of accelerated depreciation used for income tax purposes over the depreciation used for financial reporting purposes.

## 34. EARNINGS (LOSS) PER SHARE

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

| | **Earnings (Loss)** | |
|---|---|---|
| | **2014** | 2013 |
| Profit (Loss) for the year | **$ 575,983** | $ 420,991 |
| Weighted average number of shares Outstanding | **871,681,261** | 1,069,426,237 |
| Earnings (Loss) per share | **$ 0.0007** | $ 0.0004 |

The Group has no dilutive potential shares in 2014 and 2013; hence, basic earnings per share are equal to the diluted earnings per share.

## 35. FINANCIAL RISK MANAGEMENT

### Financial Risk Management Objectives and Policies

The Group's activities are exposed to a variety of financial risks: market risk relating to foreign exchange risk and interest rate risk, credit risk and liquidity risk. The Group's overall risk management program seeks to minimize potential adverse effects on the financial performance of the Group. The policies for managing specific risks are summarized below:

*Market risk*

Market risk is the risk due to changes in market prices, such as foreign exchange rates and interest rates that will affect the Group's profit or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

There has been no change on the Group's exposure to market risks or the manner in which it manages and measures the risk.

*Foreign exchange risk*

Foreign exchange risk relates to the possibility that an investment's value changing due to changes in currency exchange rate. The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise with respect to transactions denominated in foreign currencies. Foreign exchange risk arises from future commercial transactions when recognized assets and liabilities are denominated in a currency that is not the Group's functional currency. Significant fluctuation in the exchange rates could significantly affect the Group's financial position.

The Group seeks to mitigate its transactional currency exposures by maintaining its costs at consistent levels, regardless of any upward or downward movements in the foreign currency exchange rates.

*Interest rate risk*

Interest rate risk refers to the possibility that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The primary source of the Group's interest rate risk relates to debt instruments such as bank and mortgage loans. The interest rates on these liabilities are disclosed in Note 20.
The Group has no established policy on managing interest rate risk. Management believes that any variation in the interest will not have a material impact on the net profit of the Group.

Bank and mortgage loans amounting to $38,023,358 and $33,175,879 as at June 30, 2014 and December 31, 2013, respectively, agreed at interest rates ranging from approximately 3% to 11% for bank loans and 7% - 11% per annum for mortgage loans; expose the Group to fair value interest rate risk.

An estimate of 50 basis points increase or decrease is used in reporting interest rate changes and represents Management's assessment of the reasonably possible change in interest rates.

The effects of a 50 basis points change in interest rate on net profit for the period ended June 30, 2014 and December 31, 2013 is an increase or a decrease of $177,998 and $155,756 respectively.

This is mainly attributable to the Group's exposure to interest rates on its borrowings.

*Credit risk*

Credit risk refers to the possibility that counterparty will default on its contractual obligations resulting in financial loss to the Group.

The Group's credit risk is primarily attributable to cash, trade and other receivables, due from related parties, and refundable lease deposit.

The Group has adopted a policy of extending sufficient credit terms to customers such as, letters of credit and documents against payment as a means of mitigating the risk of financial loss from defaults. The Group only transacts with entities that are rated the equivalent of investment grade. The Group uses publicly available financial information and its own trading records to rate its major customers.

Based on the prior years' experiences of the Group and based on the assessment of the current economic environment and creditworthiness of its debtors, Management believes receivables are neither impaired nor uncollectible, as disclosed in Note 8.

The carrying amounts of financial assets recorded in the consolidated financial statements, represent the Group's maximum exposure to credit risk without taking account the value of any collateral obtained:

| | **2014** | 2013 |
|---|---|---|
| Cash and cash equivalents | **$ 1,756,152** | $ 1,568,125 |
| Trade and other receivables | **19,264,268** | 16,162,372 |
| Due from related parties | **881,340** | 810,484 |
| Refundable lease deposit | **1,690,586** | 1,624,952 |
| | **$23,592,346** | $20,165,933 |

Included in the Group's trade and other receivables are debtor's accounts which are past due with carrying amounts of $2,364,224 and $2,505,356 as at June 30, 2014 and December 31, 2013, respectively, for which the Group has not provided an allowance as at June 30, 2014 and December 31, 2013, respectively, since there is no significant change in the credit quality of these receivables and the amounts are still considered recoverable.

Aging of accounts that are past due but not impaired:

| | **2014** | 2013 |
|---|---|---|
| 1 to 30 days past due | **$2,074,601** | $1,783,329 |
| 31 to 60 days past due | **179,754** | 359,449 |
| Over 60 days | **109,870** | 362,578 |
| | **$2,364,224** | $2,505,356 |

*Liquidity risk*

Liquidity risk refers to the possibility that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by maintaining adequate reserves in cash in bank, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

## 36. CAPITAL MANAGEMENT

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximizing the profits of the shareholders through the optimization of the debt and equity balance.

The capital structure of the Group consists of debt, which includes loans, and advances received from related parties as offset by cash and cash equivalents, and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

The debt to equity ratio of the Group at each reporting period is within the acceptable range as follows:

| | **2014** | 2013 |
|---|---|---|
| Debt | **$38,311,006** | $33,319,642 |
| Less: Cash and cash equivalents and cash restricted | **13,343,805** | 1,568,125 |
| Net debt | **24,967,201** | 31,751,517 |
| Equity | **41,133,870** | 27,965,894 |
| Debt to equity ratio | **0.61:1** | 1.14:1 |

Debt is composed of loans payable, and due to a related party as discussed in Notes 20 and 21, respectively, while equity includes share capital and reserves and retained earnings of the Group, less treasury shares.

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

* * *